1 Background

Investment Banking Funds (IB Funds) has prepared a short fact sheet to address the key criticisms about Macquarie raised by hedge fund manager James Chanos and Breaking Views journalists Edward Chancellor and Lauren Silva.

2 IBF Fact Sheet

(i) Evidence of Diversity of Business

- MBL has a diversified revenue base with multiple high performing businesses.
- MBL has approximately 10,300 staff in 24 countries.
- Although an important and high profile area of the bank, Macquarie's success is not reliant solely on the contribution of any individual area of business, including the IB Funds.

(ii) Evidence of Investment Discipline

- Detailed financial analysis and due diligence completed prior to asset acquisition.
- Funds only acquire assets that are value accretive (value/distribution accretive).
- Importantly, each deal is assessed on a fund-by-fund basis:
    - Compared against stated fund investment mandate and criteria.
    - Must be value accretive (IRR) and maintain/enhance distributions over time.
- Many more assets are reviewed and rejected than are acquired. By way of example:
    - Since inception MIG has reviewed over 125 deal proposals of which it has invested in 31.
    - Since inception MCG has reviewed over 60 deal proposals of which it has invested in four.
- Macquarie and its funds declined to increase their offer price for a number of assets in the last 12 months. These include London City Airport, SH121 Texas Tollway, Chicago City Car Parks, OOIL (Vancouver and New York ports), and Associated British Ports.
- Other notable public transactions in which Macquarie or its funds were unsuccessful by reason of price include the London Stock Exchange, Budapest Airport, the Cross City Tunnel and the Lane Cove Tunnel.
- This investment discipline is evident in the returns of Macquarie's Investment Banking Funds which have delivered a compound annual return of 20.2% since inception 13 years ago.
- In many cases equity is raised after a fund is declared preferred bidder for an asset. This provides investors the opportunity to scrutinise the transaction and decide if they will support it with new equity.

(iii) Relevance of Related Party Transactions to Macquarie Performance

- During FY 2007, less than 1% of Macquarie's Total Operating Income was derived from the sale of infrastructure assets by the Bank to the funds
- Advisory fees from related managed funds was 3% of Total Operating Income.

(iv) Evidence of Robustness of Valuation Model and Distributions Derived from Cashflow, not Valuations

- Accounting rules require the assessment of market value of assets in many cases.
- Market expects directors' and Macquarie assessment of asset values.
- Market Analysts consistently value assets above fund directors' valuations.

Fund	Latest Published NAB	Average analyst valuation (as at Mar 07)
MIG	$3.87 (Dec 06)	$3.97
MAp	$3.93 (Dec 06)	$4.05
MIIF	$1.10 (Mar 07)	$1.25

- While Macquarie infrastructure funds are predominantly long term owners of their assets, between 1994 and 2007, eight assets with a combined enterprise value of more than A$10bn (or circa 8% of total IBF AUM) have been sold to unrelated third parties.
- Sale proceeds have delivered in excess of 2.2x equity invested for the funds and a weighted average compound annual return of 28%.
- Importantly, asset values on realisation have in all cases exceeded directors' valuations:
    - Cintra was sold at €8.34 and is now trading at €12.93, almost three years after sale
    - An agreement to sell Birmingham Airport for more than 50% above December 2006 directors' valuation was reached in May 2007.

Where we have invested in businesses that have remained listed on a local stock exchange those businesses are now trading at prices materially higher than the funds' entry prices, eg:

- MAp acquired its initial stake in Copenhagen Airports (CPH) at DKK 1247, it then made its takeover offer for CPH at DKK 2000, today CPH is trading at DKK 2400.
- MIG, MEIF and Eiffage acquired a stake in APRR for €61, today APRR stock trades at approx €75.
- Distributions are determined by cashflow, not valuations. The table below shows the extent to which MIG's, MAp's and MCG's distributions are sourced from operating cashflow.

Fund	Prop. Of Dist. From operating cashflow
MIG	45 – 55%[1]
MAp	65 – 70%[2]
MCG	~100%[3]

- Where funds have co-invested with equity partners who also produce valuations, the Macquarie fund valuations are seen as conservative compared to our partners: Cintra values the 407ETR 15% higher than MIG and the Chicago Skyway 67% higher than MIG.

- There is no connection between the accounting at the fund level and the funding at the asset level. Valuations are only undertaken at the fund level whereas the debt is held at the asset level. Assets do not produce valuations but traditional historic cost accounts. Asset funding is dependent upon the cash flow being generated by the operations of the business of that asset.

(v) Use of Debt and Interest Rate Sensitivity

- Average gearing across all IB Funds' managed assets is 58%.
- Interest rate sensitivities:
    - Over A$95 billion of debt across IBF managed assets – majority fixed rate or hedged.
    - Over the **short to medium term,** cashflows of IBF funds are relatively insensitive to changes in interest rates due to significant interest rate hedging.

[1] Based on FY2007 distribution guidance of 20 cents per security
[2] Based on FY2007 distribution guidance of 26 cents per security
[3] Based on FY2007 distribution guidance of 42 cents per security

- The table below shows the % of asset debt at fixed rates or hedged over the following terms[4].

0 – 2 yrs	2 – 4 yrs	4 – 7 yrs	> 7 yrs
91%	81%	70%	45%

– Over the long term, indexed cashflows provide a natural hedge to rising interest rates. The table below illustrates the natural hedge for MIG's two largest investments:

	407 ETR (A$m)	M6 Toll (A$m)
Valuation at 31 December 2006	2,936	2,562
Interest rates +1%	(73)	(7)
Risk-free rate +1%	(587)	(406)
Inflation +1%	792	540
Valuation	**3,068**	**2,689**
Valuation uplift	**4.5%**	**5.0%**

(vi) Complexity of Structures

– Most funds include a pass-through vehicle to ensure the efficient flow of income and capital from underlying assets to fund investors.
– The funds generally finance each acquisition using limited recourse debt. One of the consequences of using limited recourse debt is that intermediate holding companies are required to hold the debt and therefore the structures appear complicated.

End

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[4] As at 31 December 2006