



23 July 2007

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Dear Sirs

**Nexus4 Topaz Notes (ASX code NXBHD)  
Portfolio Commentary Report from Portfolio Manager**


Attached is a Portfolio Commentary Report for the quarter ended 30 June 2007 prepared by the Portfolio Manager, Société Générale Asset Management Alternative Investments SA (**SGAM AI**).

Neither Deutsche Bank nor Nexus is liable for any error or omission in the information contained in the report.

Please note this report is in relation to Nexus4 Topaz Notes only and does not relate to Nexus1 Notes (ASX code NXBHA), Nexus2 Notes (NXBHB) nor Nexus3 Notes (NXBHC).

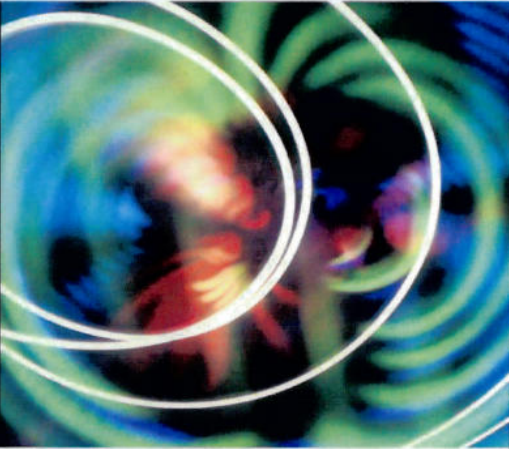
Yours faithfully

Deutsche Bank AG, Sydney Branch  
(as Operating Agent for Nexus Bonds Limited)



**Nexus 4**  
Topaz Notes

Quarterly report



*Second Quarter 2007*

Alternative Investments



**SOCIETE GENERALE**  
Asset Management

# NEXUS4 Topaz Note

Second Quarter 2007

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# NEXUS4 Topaz Note

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## TRANSACTION SUMMARY

Issuer	Nexus Bonds Limited
Manager	SGAM Alternative Investments
Arranger	Deutsche Bank
Ticker Bloomberg	NXBHD Corp <Go>
5yr Initial Average Spread	67.47 bp
Initial Average Rating	BBB
Next Reset Date	November 2007
4 <sup>th</sup> Coupon Reset Spread	48.08 bp (May, 2007)
3 <sup>rd</sup> Coupon Reset Spread	48.68 bp (November, 2006)
2 <sup>nd</sup> Coupon Reset Spread	53.78 bp (May, 2006)
1 <sup>st</sup> Coupon Reset Spread	72.06 bp (November, 2005)

## LIABILITIES CHARACTERISTICS

Class	Rate	Participation	Maturity	Previous Income Factor	New Income factor	Change in Income Factor
Nexus4	BBSW 6m	4	10Y	76.9503%	76.6700%	-0.28033%

## MANAGEMENT PHILOSOPHY

- ⊙ NEXUS4 are Capital Guaranteed Notes with coupon linked to the performance of CDO equity tranche.
- ⊙ High quality reference portfolio: 120 Companies with an average rating of BBB, diversified through 32 sectors
- ⊙ Floating Credit Spread: The coupons are fixed every six-month period to reflect the average 5 year credit margin of the portfolio

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## MARKET OVERVIEW

As the market moves towards an environment of higher global interest rates and securitization concern, investors are seeking higher risk premiums. On the back of sub-prime related liquidations by hedge funds and further closure of leveraged structures, the credit market continues to weaken.

Moreover, if inflation starts putting pressure on yields, this will cause further volatility on both the mortgage and the subprime market and therefore lead to a major concern for the equity market. Further losses on the sub-prime market and potential downgrades on highly rated CDOs of ABS will increase further the risk aversion.

In the medium term, ongoing turmoil in the sub-prime market will continue to drive market volatility and a decompression of spreads. However, it is difficult to evaluate the magnitude and the length of the re-pricing. If US inflation appears to be contained, we believe the Fed could act on its interest policy by the end of the year.

Furthermore, LBO trades and debt issued from M&A activity may suffer from a lack of liquidity. New deals should reflect the current lack of demand from High Yield and loan investors. However, a parallel shift in the yield curve and wider credit spreads should mitigate the number of potential LBO deals and would imply that the current LBO risk premiums are slightly overdone.

On the corporate Investment grade side, we estimate that the recent spread widening and the sharp increase of market volatility has not changed the solid corporate and macro economic backdrop. We believe that this offers an opportunity to enter the market and highlights the importance of the name selection. On line corporate earnings and strong economic figures during the summer should allow the market to recover.

## CONSTRAINTS

Criteria	Target	Current	Validation
Maximum exposure to Portfolio Companies rated BB+/Ba1 or below	10%	10.92%/12.61%	Failed
Maximum Average 7 year Portfolio Credit Spread	3%	0.76%	Pass
Maximum Exposure to a single industry	15%	12.61%	Pass
Maximum exposure to Portfolio Companies with no public rating	5%	4.20%	Pass
Maximum exposure to country rated below A-/A3	5%	2.52%/1.70%	Pass

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## 5 YEAR MARKET SPREADS

		Current spread 29/06/2007	Spread as of 30/03/2006	Variation
<b>5 Tightest Market Spreads*</b> (5 years CDS)	EXPORT IMPORT BANK OF KOREA	14	15	-1
	VOLKSWAGEN AG	18	19	-1
	DOMINION RESOURCES INC/VA	19	29	-10
	HALLIBURTON CO	19	21	-2
	ZURICH INSURANCE COMPANY	20	17	3
<b>5 Widest Market Spreads*</b> (5 years CDS)	VNU N.V. (Nielsen Co)	364	305	59
	RALLYE	256	235	21
	HAVAS SA	253	228	25
	FLEXTRONICS ONTL LTD	229	162	67
	EXPEDIA INC	223	138	85

\*Source: Markit

## PERFORMING NAMES

		Current spread 29/06/2007	Spread as of 31/03/2007	Variation
<b>5 Best performing names*</b> (5 years CDS)	QANTAS AIRWAYS LTD	50	217	-167
	VALEO	78	118	-40
	BOMBARDIER INC-A	149	176	-27
	COX COMMUNICATIONS INC-CL A	24	44	-20
	SBC COMMUNICATIONS INC	22	39	-17
<b>5 Worst performing names*</b> (5 years CDS)	EXPEDIA INC	223	138	85
	FLEXTRONICS ONTL LTD	229	162	67
	STARWOOD HOTEL & RESORTS WORLDWID	144	97	47
	MARSH & MCLENNAN COS INC	71	43	28
	HAVAS SA	253	228	25

\*Source: Markit

## CREDIT MIGRATION DURING THE PERIOD

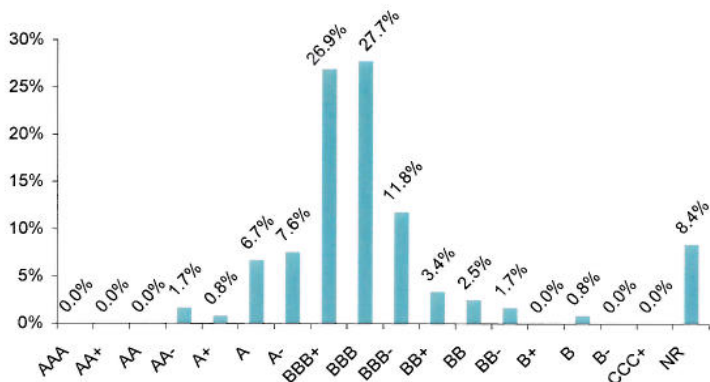
Date	Name	Agency	From	To	Action
04/04/2007	KAUPTHING BANK	Moody's	Aaa	Aa3	↘
16/04/2007	BANCA POPOLARE DI LODI SCRL	Moody's	Baa2	A2	↗
02/05/2007	HALLIBURTON CO	Moody's	Baa1	A2	↗
11/05/2007	SES GLOBAL SA	S&P	BBB+	BBB	↘
16/05/2007	METSO CORPORATION	S&P	BB+	BBB-	↗
20/06/2007	EXPEDIA INC	S&P	BBB-	BB+	↘
21/06/2007	AMCOR LTD	Moody's	Baa1	Baa2	↘
25/06/2007	LTD BRANDS INC	S&P	BBB	BBB-	↘

# NEXUS4 Topaz Note

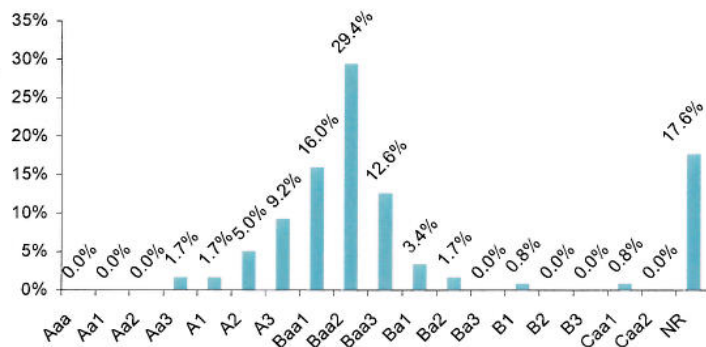
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## RATING SPLIT

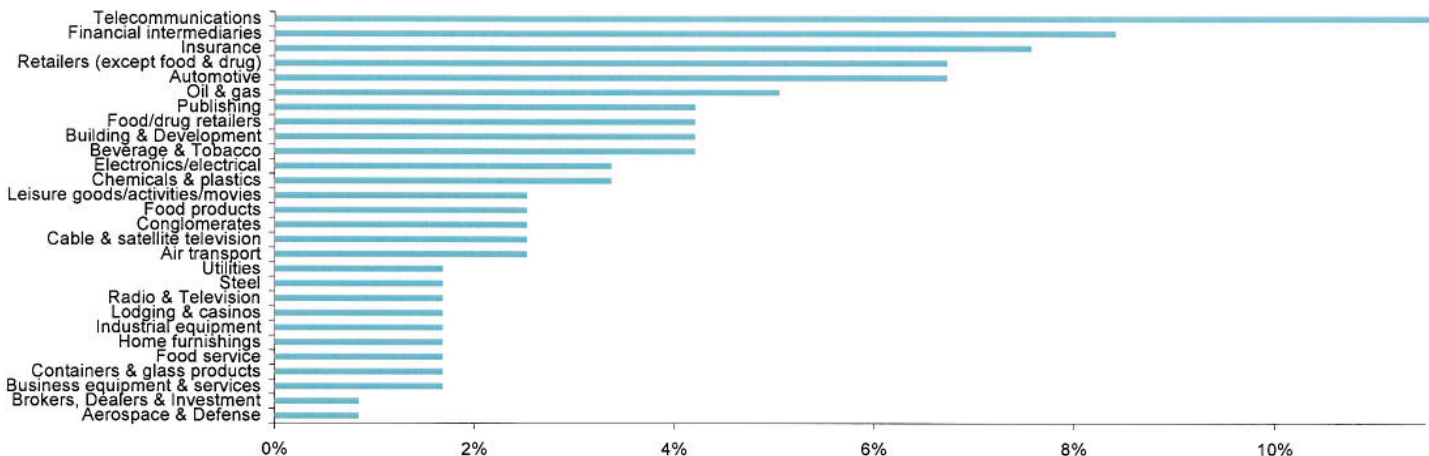
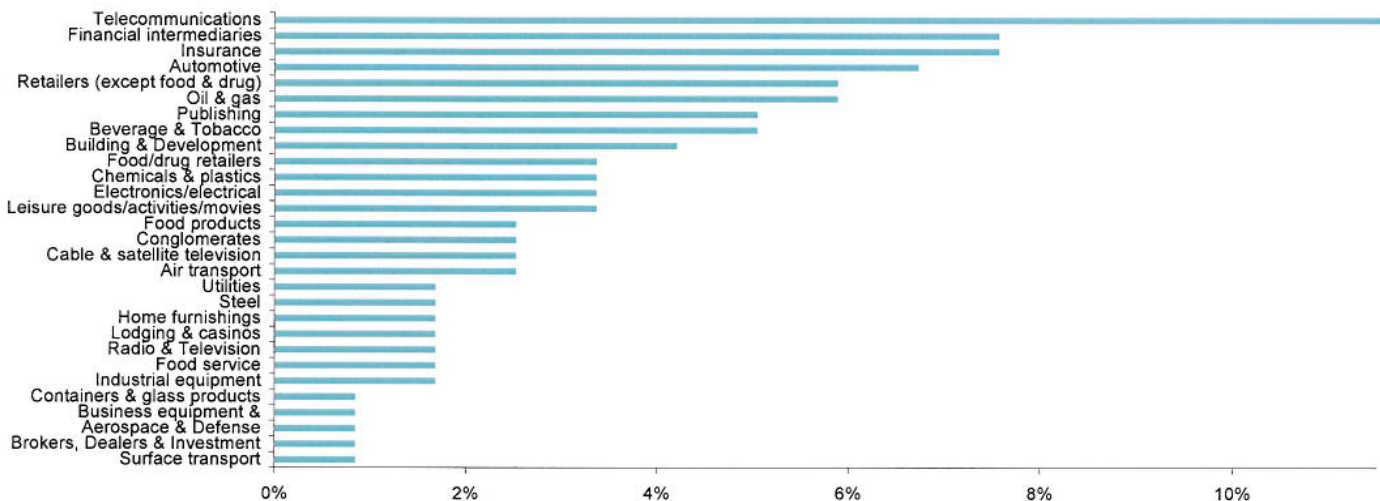
S&P



Moody's



## INDUSTRY BREAKDOWN



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## SUBSTITUTIONS DURING THE PERIOD

	REMOVED	Weight	ADDED	Weight
11/04/2007	BAE SYSTEMS PLC	100%	CARREFOUR SA	100%
	CNOOC LTD	100%	PEARSON PLC	100%
	GALLAHER GROUP PLC	100%	PROSIEBEN SAT.1 MEDIA AG	100%
	TUI AG	100%	VINCI S.A.	100%
25/06/2007	BOOTS GROUP PLC	100%	CENTEX CORP	100%
	EMI GROUP PLC	100%	ELECTRONIC DATA SYSTEMS CORP	100%
	HOLCIM LTD	100%	LENNAR CORPORATION	100%
	LVMH MOET HENNESSY LOUIS VUI	100%	RANK GROUP PLC	100%
	VEOLIA ENVIRONNEMENT	100%	WASHINGTON MUTUAL INC	100%

## NAME FOCUS

### Expedia

BB+ (-) / Baa3(-)

Spread 5YR 220bps

In August 2005, IAC/Interactive Active Corp separated its business in two independent public companies. A new company Expedia Inc was incorporated and quoted on the NYSE to hold substantially all of the former IAC's travel and travel related businesses. Following the spin-off, IAC focuses on home shopping, ticketing services, financial services, online dating services and online search.

Like IAC, Expedia is controlled by Barry Diller who holds more than 55% of the outstanding voting rights of Expedia. The US diversified media holding company Liberty Media Corp owns approximately 17% of Expedia's outstanding common stock.

Over the last few years, Expedia has gained market share in the online travel industry, which is still taking from the traditional activity. Expedia has been successful at feeding its website with more product than its online competitors.

It generates high operating cash flow and free cash flow, predominantly because of negative working capital and low capex. Especially for the merchant business, there is a period of time between the receipts of cash from travellers to supplier payments.

Expedia has an extremely sound financial position fully in line with an investment grade status. Therefore considering the actual financial profile of the company we think that this corporate fully comply with name selection of an Investment Grade type of investment.

However due the very recent share buyback announced, with a potential significant increase in the leverage, we will monitor the position and take advantage of any tightening to reduce the exposure on the name.

### Countrywide

A / A3(-)

Spread 5YR 69bps

Countrywide is n° 1 in origination (16% market share), n° 2 in servicing (12.8% market share). Countrywide has accumulated \$14bn of equity to be compared to \$200bn of total assets. The retained loan portfolio has declined in 2006 to \$73bn and isn't very aggressive (even if mostly non conforming) : the biggest part is pay-option (\$28bn) generally with negative amortisation (\$28bn). The LTV is 78% which should limit the loss given default. The 90+days delinquency is quite limited at 0.67%. Ultimate losses on this portfolio may result in bad quarterly earnings, probably not losses and do not represent an actual credit risk.

On the refinancing side Countrywide has \$56bn deposits. It limits the need for external refinancing and we don't anticipate any liquidity crisis for Countrywide. Globally the unsecured debt only represents 18% of the total refinancing, which is very limited. The liquidity position of the group is very strong especially if the group limits its origination in the coming quarters, which appears to be the case.



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## **Centex**

*BBB / Baa2*

*Spread 5YR 121bps*

Centex is both a developer and a mortgage originator. 80% of the houses were sold with a mortgage Centex home Equity. The latter mortgage activity was mainly subprime and has been sold \$518m (\$75m of gain on the sale) in July 2006 and renamed Natiostar. It also sold its international activities in December 2005. This made the balance sheet decreases by \$7.9bn, but \$1.7m of mortgages remain on balance sheet as of march 31 2007.

The management reacted very quickly to the current environment by decreasing the unsold inventory and the lots owned. In addition, the company has written down \$690m assets to reflect the new market value.

In spite of a sharp downturn in the new orders, Centex has been able to limit the decrease of the sales. Moreover the level of the debt has slightly decreased (\$3.9bn for building, \$1.66bn for the mortgage activity) which is acceptable even the \$5.1bn equity and \$0.88bn cash.

We think that Centex should remain in the investment grade over the current crisis.

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