

***Adelaide Managed Funds Asset Backed Yield
Trust***

ARSN 120 038 002

Report for the Half-Year ended 31 December 2006

Results for announcement to the market

Release date - 1st February 2007

*Prepared in accordance with ASX Listing Rule 4.2A.3
Appendix 4D*

It is recommended that the half-year financial report is read in conjunction with any public announcements made by Adelaide Managed Fund Assets Backed Yield Trust for the period ending 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

Appendix 4D

The Directors of Adelaide Managed Funds Limited (ABN 81 062 274 533), the Responsible Entity of the Adelaide Managed Fund Asset Backed Yield Trust (the "Fund") (ARSN 120 038 002), are pleased to announce the results of the Fund for the period ended 31 December 2006. This report covers the first reporting period, being 31 August 2006 to 31 December 2006. This announcement is to be read in conjunction with the attached Interim Financial Report for the period ended 31 December 2006.

Results for Announcement to the Market

The consolidated profit before tax for the period from registration on 31 August 2006 to 31 December 2006 attributable to the Unitholders of the Fund was \$3,337,624. The Fund derived a profit before tax of \$3,337,624 after deducting \$2,587,668 of Revenue from the second instalment¹. The following table provides a summary of the main line items reported in the income statement.

	A\$
Total Net revenue from continuing activities	5,925,292
Revenue from Second Instalment	2,587,668
Earnings before interest and tax (EBIT)	3,337,624
Net Profit for the period attributable to Unitholders	3,337,624
Distributions Payable for the Period to Unitholders	3,330,000

Distributions for the period

On 31st January 2007, the Directors of Adelaide Managed Funds, resolved to pay an interim distribution of 3.33 cents per unit, in line with its earlier estimates (refer announcement on 14th December 2006). A summary of this is presented below:

	Amount per Security (cents)	Franked Amount per Security (Cents)
Interim distribution	3.33	-
- record date 29 December 2006		
- payable date 12 February 2007		

¹ The revenue on the Second Instalment represents the accounting entry required under AIFRS as a result of discounting the proceeds of the Second Instalment to the Allotment date. It is not a cash item for the period to 31st December 2006, and accordingly has been subtracted to calculate the Distributable Income.

Net Tangible Asset Backing per Security

	31 December 2006 \$ per security
Net tangible asset backing per security*	\$ 0.927

*Calculations exclude second instalment proceeds due on 31 August 2007 amounting to \$100m.

Explanation of the Results

Refer to Market Announcement dated 1st February 2007.

Accounting Standards used by the Fund

The Fund has applied AIFRS compliant accounting standards consistent with those of the Adelaide Managed Funds Limited.

Comparative information

The Fund was registered on 31 August 2006, as such this is the first reporting period for the Fund and therefore no comparative figures have been included.

Adelaide Managed Funds Asset Backed Yield Trust

**Half Year Financial Report
for the period ending 31st December 2006**

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

DIRECTORS' REPORT

In accordance with the Corporations Act 2001, the Directors of Adelaide Managed Funds Ltd (ABN 81 062 274 533), the Responsible Entity of the Adelaide Managed Funds Asset Backed Yield Trust (the "Fund") (ARSN 120 038 002), submit their report for the Fund for the period from 31st August 2006 to 31 December 2006.

The Manager

Adelaide Managed Funds Ltd has acted in the capacity of Responsible Entity of the Fund for the period ended 31 December 2006. Adelaide Bank Ltd ('Adelaide Bank') is the Custodian and Service Provider and as such has prepared these accounts.

Directors

The names of the Directors of Adelaide Managed Funds Ltd during the period and until the date of this report are:

S. Crane (Chairman)
B. F. Fitzpatrick (resigned 15/12/2006)
A. Lloyd
J. L. McPhee
S. Treanor
N. Fox

The Directors were in office from the beginning of the financial period until the date of this report, unless otherwise stated.

Principal Activities

The principal activity of the Fund during the period was the investment of Funds in notes backed by a range of assets including margin loans, non-conforming residential mortgages and medical equipment loans and leases. There has been no significant change in the nature of this activity during the period.

Fund Information

The Fund is an Australian registered Trust. Adelaide Managed Funds Ltd, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at 169 Pirie St, Adelaide, SA, 5000.

Review of Operations

The Fund invests predominantly in asset backed securities such as margin loans, non-conforming residential mortgages and medical equipment loans and leases. The revenue earned by the Fund is derived solely as interest from its investments.

Results

The performance of the Fund for the period ended 31 December 2006, as represented by the results of its operations, was as follows:

Interest Income:	\$4,502,383
Finance Costs - Distribution to unitholders:	\$3,337,624

The total value of assets held by the Adelaide Managed Funds Asset Backed Yield Trust as at 31 December 2006 was \$228,677,623. Management fees paid to Adelaide Managed Funds Ltd during the financial period were \$423,129.

The total number of units issued as at 31 December 2006 was 100,000,000.

Distributions

On 14 December 2006, the directors resolved to pay a interim distribution of 3.33 cents per unit on 12 February 2007, for the period ended 31 December 2006.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

Application of Australian Equivalents to International Financial Reporting Standards ("AIFRS")

During the period, the Fund applied Australian equivalents to International Financial Reporting Standards (AIFRS) for financial reporting purposes.

Significant Changes in the State of Affairs

On 27 July 2006, Adelaide Managed Funds Ltd announced an initial public offering (IPO) for Adelaide Managed Funds Asset Backed Yield Trust. The IPO was completed on 30 August 2006 and the Fund was admitted to the official list of the Australian Stock Exchange Limited (ASX) and the securities (ASX: AYTCA) commenced trading on the 31 August 2006. The IPO resulted in the issue of 100,000,000 units at a partly paid issue price of \$1.00. The second instalment of \$1.00 in respect of these units is expected to be called on 31 August 2007.

Significant Events after Balance Date

No other matter or circumstance has arisen since 31 December 2006, not otherwise dealt with in this report or the financial statements that has significantly affected or may significantly affect:

- (i) the operation of the Fund in future financial periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the Fund in subsequent financial periods.

Likely Developments

In the opinion of the Directors, disclosure of any further information on likely developments would be prejudicial to the Fund.

Environmental Issues

The operations of the Fund are not subject to particular or significant environmental regulations under a Commonwealth, State or Territory Law. There have been no known significant breaches of any other environmental requirements applicable to the Fund.

Insurance and indemnification for officers or auditors

Indemnification

The Fund has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer of the Responsible Entity or an auditor of the Fund. So long as the officers of both the Manager and the Custodian act in accordance with the Constitution/Trust Deed and the Law, both parties remain fully indemnified out of the assets of the Fund against any losses incurred while acting on behalf of the Fund.

Insurance Premiums

During the financial period the Responsible Entity has paid premiums in respect of its Directors and officers for liability and legal expenses on insurance contracts for the financial period ended 31 December 2006. This entity has paid or agreed to pay in respect of the Fund, premiums in respect of such insurance contracts for the financial period ending 31 December 2006. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been directors of the Responsible Entity or executive officers of the Responsible Entity.

Details of the nature of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the contracts.

Auditor's Independence Declaration

The auditor's review of this financial report is in accordance with the declaration "Auditor's Independence Declaration to the Directors of Adelaide Managed Funds Asset Backed Yield Trust" on page 3.

This report has been made in accordance with the resolution of directors.

S Crane
Chairman
31st January 2007

To the Unitholders of Adelaide Managed Funds Asset Backed Yield Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying financial report of Adelaide Managed Funds Asset Backed Yield Trust (“the Fund”), which comprises the Condensed Balance Sheet as at 31 December 2006, Condensed Income Statement, Condensed Statement of Changes in Equity and Condensed Cash Flow Statement for the period from 31 August 2006 to 31 December 2006 and other selected explanatory notes and the Directors’ Declaration.

Directors’ Responsibility for the Financial Report

The directors of the Fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Funds’ financial position as at 31 December 2006 and its performance for the period from 31 August 2006 to 31 December 2006; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Fund a written Auditor’s Independence Declaration, a copy of which is included in the Directors’ Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Adelaide Managed Funds Asset Backed Yield Trust is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Funds' financial position as at 31 December 2006 and of its performance for the period from 31 August 2006 to 31 December 2006; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Colin Dunsford
Partner
Adelaide
31 January 2007



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Auditor's Independence Declaration to the Directors of Adelaide Managed Funds Asset Backed Yield Trust

In relation to our review of the financial report of Adelaide Managed Funds Asset Backed Yield Trust for the period from 31 August 2006 to 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Colin Dunsford
Partner
31 January 2007

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

INCOME STATEMENT

FOR THE PERIOD FROM 31st AUGUST 2006 TO 31st DECEMBER 2006

	Note	Dec-06 \$
INCOME		
Interest Income	3(a)	4,502,383
Revenue from second instalment		2,587,668
		<u>7,090,051</u>
EXPENSE		
Operating Expenses	3(b)	439,574
Earnings before Interest and Taxation		<u>6,650,477</u>
Net Interest Expense	3(d)	725,185
Profit from Operations for the period		<u>5,925,292</u>

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Dec-06 \$
Assets		
Cash and Cash Equivalents	4	4,374,786
Trade and Other Receivables	5	772,174
2nd Instalment Receivable		94,694,810
Investments	6	128,835,853
Total Assets		<u>228,677,623</u>
Liabilities		
Trade and Other Payables	7	382,874
Interest Bearing Liabilities	8	37,600,000
Distribution payable	9	3,337,624
Total Liabilities excluding net assets attributable to unitholders		<u>41,320,498</u>
Net Assets Attributable to Unitholders		<u>187,357,125</u>
Represented by:		
Unitholders Funds	10	184,769,457
Retained Earnings		2,587,668
Net Assets Attributable to Unitholders		<u>187,357,125</u>

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE PERIOD FROM 31st AUGUST 2006 TO 31st DECEMBER 2006

Dec-06

Net Assets Attributable to Unitholders at the beginning of the period	100,000,000
2nd Instalment (due 31st August 2007)	92,107,142
Capitalised Issue Costs	(7,337,685)
Retained Earnings	5,925,292
Distribution to Unitholders	<u>(3,337,624)</u>
Net Assets Attributable to Unitholders at the end of the period	<u><u>187,357,125</u></u>

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

CASH FLOW STATEMENT
FOR THE PERIOD FROM 31st AUGUST 2006 TO 31st DECEMBER 2006

	Dec-06
	\$
Cash flows from operating activities	
Interest received on Investments	3,683,165
Interest received on Cash Deposit	88,162
Interest Expense on Borrowings	(690,664)
Manager Fee Paid	(111,654)
GST refunded	16,266
Payments to Service Providers	(11,839)
	<hr/>
Net cash flows from operating activities	2,973,436
Cash flows from financing activities	
Receipts from Unitholders	92,662,315
Proceeds from Borrowings	39,600,000
Repayment of Borrowings	(2,000,000)
	<hr/>
Net cash flows used in financing activities	130,262,315
Cash flows from investing activities	
Investments acquired	(128,860,965)
	<hr/>
Net cash provided by financing activities	(128,860,965)
Net increase in cash and cash equivalents	4,374,786
Cash and cash equivalents held at the beginning of the financial period	-
	<hr/>
Cash and cash equivalents held at the end of the financial period	4,374,786

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 Corporate Information

Adelaide Managed Funds Asset Backed Yield Trust is an Australian registered Trust, constituted in August 2006. Adelaide Managed Funds Ltd, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at 169 Pirie St, Adelaide, SA, 5000.

NOTE 2 Summary of Significant Accounting Policies

(a) Basis of accounting.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements have also been complied with.

The financial report has been prepared on a historical cost convention, as modified by the revaluation of investment securities held for trading and other certain assets and liabilities measured at fair value or amortised cost where appropriate. The balance sheet is presented on a liquidity basis. The financial report is presented in Australian dollars.

(b) Application of Accounting Standards

Australian Accounting Standards and Urgent Issues Group Interpretations that recently have been issued or amended but are not yet effective have not been adopted for the reporting period ended 31 December 2006:

The following amendments are not applicable to the Fund and therefore have no impact.

AASB Amendment	Affected Standard(s)
	UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
	UIG 8 Scope of AASB 2
	UIG 9 Reassessment of Embedded Derivatives

(c) Significant Accounting Judgements, Estimates and Assumptions

The Fund has not made any significant accounting judgements, estimates or assumptions in the preparation of this financial report that is required to be disclosed.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONT)

NOTE 2 Summary of Significant Accounting Policies (Cont)

- (d) Revenue
Interest income is recognised to the extent that it is probable the economic benefits will flow to the Fund and the income can be reliably measured.
Interest income is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.
- (e) Expense recognition
Expenses are recognised in the income statement when the Fund has a present obligation as a result of a past event that can be reliably measured. Expenses are recognised in the income statement if expenditure does not produce future economic benefits that qualify for recognition in the balance sheet.
- (g) Distributable Income
Distributable income will be a minimum of the Fund's taxable income for the relevant distribution period. However, if adjusted accounting income is greater than Fund's taxable income, Adelaide Managed Funds may distribute up to the amount of adjusted accounting income.
- (h) Distribution of income
Income is credited half-yearly to unitholders' accounts.
- (i) Cash and Cash Equivalents
For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash at bank, deposits held at call with banks and short term investments with original maturity of three months or less.
- (j) Income Tax
Under current Income Tax Legislation, the Fund is not liable to pay income tax provided the unitholders are presently entitled to the income of the Fund and the Fund fully distributes its taxable income.
- (k) Investments
Investments are classified as either financial assets held to maturity, loans and receivables, available for sale or fair value through the Income statement where appropriate.

Investments held to maturity

The investment assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Fund has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Such assets are carried at amortised cost using the effective yield method.

Loans and Receivables

Loans and receivables have fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective yield method.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONT)

NOTE 2 Summary of Significant Accounting Policies (Cont)

- (k) Investments (cont)
Held for Trading
Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets classified as held for trading are included in this category 'Financial assets at fair value through profit & loss'.
Available for sale
Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as any of the preceding three categories. Such assets are measured at fair value and changes are taken directly to Equity.
- (l) Terms and Conditions of Units on Issue
Each unit confers upon the unitholder an equal interest in the Fund and is of equal value. A unit does not confer an interest in any particular asset or investment of the Fund. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:
- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Fund.
- (m) Trade and Other Receivables
Receivables are amounts where settlement has not yet occurred. Receivables are carried at original amounts less any provision for uncollectible amounts. Interest is accrued at the reporting date from the last payment. Amounts are generally received within 30 days of being recorded as receivables.
- (n) Trade and Other Payables
Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund, and include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days. Payables are measured at amortised cost.
- (o) Interest bearing liabilities
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.
- (p) Instalment Receivable
The instalment receivable is recognised as the discounted fair value of the second instalment to the allotment date. The revenue on the second instalment is as a result of the unwinding of discounting of the proceeds of the second instalment to the allotment date.
- (q) Goods & Services Tax (GST)
Expenses incurred by the Fund are recognised net of the amount of GST that can be recovered from the Australian Taxation Office (ATO). Amounts recognised as receivables and payables at balance date are inclusive of GST. Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the Balance Sheet.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONT)

Dec-06

\$

NOTE 3 Interest Income and Distribution to Unitholders

(a) Finance Income

Income from Investments	4,526,447
Amortisation of Capitalised Expenses	(25,113)
Other Interest Income	1,049
	<u>4,502,383</u>

(b) Operating Expenses

Custodian Fee	4,246
Manager's remuneration	423,129
Other Operating Expenses	12,199
	<u>439,574</u>

(c) Finance Costs - Distribution to unitholders

Accrued Distribution at the beginning of the period	0
Distributions Paid during the period	0
Accrued Distribution proposed and payable on the 12th February 2007	3,330,000
Accrued Distribution Payable to unitholders	7,624
	<u>3,337,624</u>

(d) Borrowing Costs

Interest Expense on Borrowings	725,185
	<u>725,185</u>

NOTE 4 Cash and Cash Equivalents

Cash Balance	<u>4,374,786</u>
Investments are valued in accordance with accounting policy Note 2(i)	
Average balance	4,122,790
Average interest rate	6.28%
Maturity analysis based on remaining term to maturity at 31 December 2006	
At call	<u>4,374,786</u>

NOTE 5 Trade and Other Receivables

Receivables Other	16,436
Accrued Interest	755,738
	<u>772,174</u>
Maturity analysis based on remaining term to maturity at 31 December 2006	
At call	<u>772,174</u>

NOTE 6 Investments

Investments Held At Amortised Cost	128,835,853
	<u>128,835,853</u>
Average balance of Investments	118,519,692
Average interest rate	11.11%

NOTE 7 Trade and Other Payables

Interest Payable	34,520
Manager/Responsible Entity fee	348,354
	<u>382,874</u>

NOTE 8 Interest Bearing Liabilities

Borrowings	37,600,000
Borrowings as at 31 December 2006	<u>37,600,000</u>

The borrowings are unsecured notes with interest payable monthly in arrears based on a floating monthly rate.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONT)

Dec-06

\$

NOTE 9 Distributions Proposed

The distribution payable is as follows:

Interim unit distributions proposed for the period ended 31 December 2006
(payable 12 February 2007) 3,330,000

Accrued Distribution payable to Unitholders 7,624
3,337,624

Cents per unit

Interim unit distributions proposed for the period ended 31 December 2006
(payable 12 February 2007) 3.33

NOTE 10 Unitholders Funds

Unit Issue - 31 August 2006 100,000,000
Unit Issue - 2nd Instalment due 31 August 2007 92,107,142
Capitalised Issue Costs (7,337,685)
184,769,457

NOTE 11 Auditors' Remuneration

The audit fee paid/payable by Adelaide Managed Funds Ltd to
Ernst & Young on behalf of the Fund 7,500

NOTE 12 Segment Information

The Fund operates in one business segment, being investment management. The Fund also operates from one geographic location, being Australia, from where its investing activities are managed. Revenue is derived from interest/distributions on investments.

NOTE 13 Financial Instruments disclosure

(a) Net Fair Values

The Fund's Trade and Other Receivables assets are valued in accordance with note 2(m).
The Fund's financial assets are valued in accordance with note 2(k). The net fair values of these assets are equivalent to the carrying value as at 31 December 2006.

(b) Interest rate risk exposures

All of the Investments pay a floating rate return. Accordingly, distributions to unitholders and the forecast annualised distribution yield for the period from Allotment to 30 June 2007 will move up or down in line with changes in interest rates.

Financial Asset	Weighted Avg Effective Interest Rate	Closing Balance
	Dec-06	Dec-06
	% p.a.	\$
Floating Rate Deposit with AAA Saver Trust	6.28	4,374,786
Investments in Other Notes	11.11	128,835,853

(c) Liquidity and cash flow risk

Many of the Fund's investments are illiquid. As a result of this illiquidity, the Fund's ability to vary its portfolio in a timely fashion, to dispose of underperforming assets or to receive a fair price for assets in response to changes in economic and other conditions may be limited. Furthermore, as the Fund acquires investments for which there is not a readily available market, the Fund's ability to obtain reliable information about the value of such investment may be limited.

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST

NOTES TO THE FINANCIAL STATEMENTS (CONT)

NOTE 11 Financial Instruments disclosure (Cont)

- (d) Credit risk exposures
Credit risk is one of the major risks faced by the Fund and may be broken down into two main categories:
- The risk that issuers of assets in which the Fund has invested (usually special purpose securitisation vehicles), are unable to make the interest payments or principal repayments when due; and
- The risk that the credit quality of the receivables in the underlying portfolio of assets held by the Fund deteriorates.
Obligations of issuers include the payment of scheduled interest and the repayment of the loans at maturity. Failure by an issuer to make these payments will lead to a reduction in yield and a loss of capital for Unitholders. A decline in the credit quality of an investment held by the Fund could occur even though the issuer is meeting its obligations. This could occur in the event that the borrowers in the underlying portfolio of receivables begin to default or if market movements cause the value of security held as a proportion of the debt (loan to valuation ratio) to increase, making it more likely that borrowers will default. A decline in the credit quality of an investment held by the Fund could ultimately result in the issuer failing to meet its obligations or a loss of capital if the asset is sold prior to its maturity at a discount to its redemption rate.
- (e) Market risk exposures
The Fund regularly monitors the concentration of its portfolio and its exposure to any given asset class, single borrower or single issuer. From time to time, the Fund may be less diversified than desired by the Investment Manager, particularly with regards to asset class. This may be driven by attractive yields available in certain asset classes or lack of investment opportunities.
Approximately 67% of the Fund's initial portfolio comprised of investments in a single securitisation program, where the underlying receivables are margin loans. There is therefore, a lack of asset class and investment diversity in the initial portfolio. There is, however, considerable diversity within the underlying portfolio of margin loans that support the securitisation program in that it contains a large number of borrowers (around 12,000) and the ultimate assets consist of a diverse range of listed securities and interests in managed Trusts.

NOTE 12 Director Disclosures

- (a) The Directors of Adelaide Managed Funds Ltd during the financial period were :
S. Crane (Chairman)
B. F. Fitzpatrick (resigned 15/12/2006)
A. Lloyd
J. L. McPhee
S. Treanor
N. Fox
- (b) The Fund has not made, guaranteed or secured, directly or indirectly any loans to the Directors or their Director related entities during the period.
- (c) The following Directors of Adelaide Managed Funds Ltd, Mr Steven Crane held 100,000 units and Mrs Nancy Fox held 7,500 units in the Fund during the period ended 31st December 2006. No other Directors held any interests during the period covered by these financial reports. All interests held are on arms length basis and under normal circumstances.
- (d) There were no Key Management Personnel employed by the Fund.

NOTE 13 Related Parties

- (a) The Responsible Entity of the Fund is Adelaide Managed Funds Ltd whose immediate and ultimate holding company is Adelaide Bank Ltd.
- (b) As at 31 December 2006 the Fund invested \$4,374,786 in the AAA Saver Fund, another Fund managed by the Responsible Entity.
- (c) All remuneration and fees have been calculated in accordance with the Trust Deed/Constitution. Manager/Responsible Entity remuneration amounted to \$423,129 for the period ended 31 December 2006.

NOTE 14 Subsequent Events

Since 31 December 2006 there has not been any matter or circumstances not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Fund.

DIRECTOR'S DECLARATION

In the opinion of the Directors of Adelaide Managed Funds Ltd:

- (a) the financial statements and notes of the Fund are in accordance with the Corporations Act 2001, including :
 - (i) giving a true and fair view of Fund's financial position as at 31 December 2006 and of its performance for the period ended on that date;
and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001;

- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the Board of Directors and in accordance with a resolution of the Directors.

Steven Crane
Chairman
31st January 2007