

CELLULOSIC ETHANOL RANGE FUELS

“Cellulosic ethanol will typically have twice the ethanol yield of corn-based ethanol, at lower capital cost, with far better net energy yield.” Could you elaborate on “lower capital cost” and “a better net energy yield”?

Numerous studies have shown that ethanol has a positive energy balance, particularly when compared with gasoline. According to the US Department of Energy, it takes 1.23 units of fossil energy to make one unit of gasoline – an energy cost of 23 percent. In contrast, corn ethanol delivers 20 – 50% more energy than it takes to produce, and cellulosic up to 600 % more..

Our focus on efficiency goes beyond how we produce ethanol - it also extends to where we produce it. Our distributive design lets us bring systems to sources where biomass is most plentiful, instead of having to transport biomass to a central processing site. This reduces transportation costs and related transportation fuel consumption. Our modularity also allows the system to grow as more biomass becomes available. Simply adding another module - which is easy to ship and install – immediately doubles the output. We put our systems where they are needed, in just the size that is needed.

In fuel terms - what can it substitute and how “implementable” is this technology - ie need to re-design cars, manufacturing processes?

It has potential to substitute fossil fuels, not just in cars, but also in industrial and manufacturing processes where gasoline is used. However, transportation-led gasoline consumption is amongst the highest and to that end, without any amendments, cars can already substitute 10% of their gasoline consumption with cellulosic ethanol. With a USD100 manufacturing change, it can run on 85%ethnol and 15%gasoline. I have such a Flexfuel car and tank up on ethanol wherever I can.

What are the risks... resistance?

This is a new, technology - just beginning to develop its potential. Infact, ours will be the first cellulosic ethanol plant anywhere in the world. It has entailed a lot of R&D, innovation and costs several 100ml Dollars to build.

Until economies of scale are realised, currently it will cost about the same as corn about USD1.50 - 1.60 per gallon. However, the cost to produce cellulosic ethanol will go down as the industry implements new technologies and efficiencies.

What has been your assessment of the availability of renewable and sustainable cellulosic feedstock?

The US Department of Energy, in their joint report with the USDA, has identified over 1 bn tons of biomass

annually that could be converted to biofuels, like ethanol. Our technology can transform all of this biomass, including wood chips, agricultural wastes, grasses, and cornstalks as well as hog manure, municipal garbage, sawdust and paper pulp into ethanol. The company has already successfully tested close to 30 types of biomass for producing ethanol.

Our technology completely eliminates enzymes which have been an expensive component of cellulosic ethanol production. We use a thermo-chemical conversion process - the K2 system, which uses a two step process to convert the biomass to synthesis gas, and then converts the gas to ethanol. In addition to the ability to process a broad range of potential biomass feedstock, the K2 system benefits from a modular design. Depending upon the quantity and availability of feedstock, the K2 system can scale from entry level systems to large configurations. This range of system size allows placement of the K2 near the biomass source reducing transportation costs, and will allow the most appropriate size system to be deployed.

Do you believe cellulosic ethanol will eventually be traded as fossil fuels do today (futures contracts, etc.)?

Without a doubt – and as soon as the supply for cellulosic ethanol comes on line. But it will take time, as our first plant will only be completed in 2008. So perhaps 2010, might be more realistic?

How can investors allocate capital? Is private equity the only route? What other vehicles are available?

Currently we are privately financed (Vinod Khosla founded Range Fuels through his firm, Khosla Ventures) and it has been via the private equity route. However, as we progress from our start -up phase we intend to enter the public market.

Ground breaking will take place this summer in Treutlen County, Georgia for a 100-mn-gallon-per-year cellulosic ethanol plant that will use wood waste from Georgia's forests as its feedstock. Phase 1 of the plant is scheduled to complete construction in 2008 with a production capacity of 20 mn gallons a year.

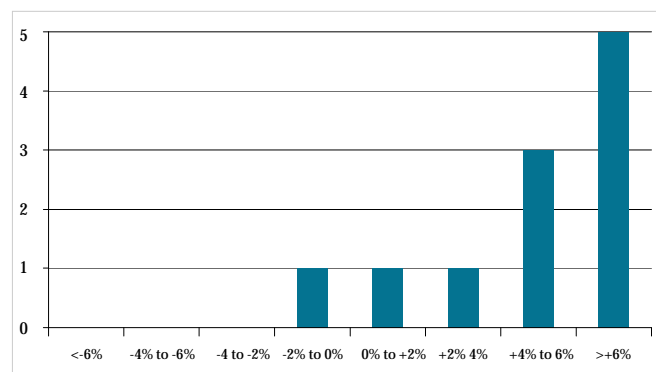
Comments / thoughts...

This technology will scale, ethanol will be competitively priced and be a significant option compared to gasoline. We also put up these plants in rural economies, so they help create jobs. Even more encouraging, waste products – material left to decay and be buried in our land today – can be recycled into fuel tomorrow. Our new fuel is innovative, eco-friendly and sustainable.



Mitch Mandich

POWER, ENVIRONMENT RELATED DERIVATIVE TRADING ATTUNGA ENVIRO OPPORTUNITIES FUND



Fund's monthly distribution

Source: Attunga Capital Pty Ltd

Focus: The Fund invests and trades primarily in derivative products focused on the power and environment related markets

- Primarily deals in derivative contracts based on the Australian National Electricity Market (NEM), being both ETC (on the Sydney Futures Exchange (SFE)) and OTC. (The d-cypha SFE electricity contracts currently cover futures and options contracts in New South Wales, Victoria, Queensland and S. Australia. In excess of 30 wholesale electricity market participants (mainly power stations and energy retailers) use these contracts to manage their risk. The annual face value of contracts traded exceeds AUD6bn and continues to grow each year).
- Pursue an active, information-based approach to derivative contracting, operating in markets that are relatively new and inefficient, undergoing development and change
- The mandate includes global CO2 emissions, weather, gas, water and other energy and environment related markets

Strengths: • Trading expertise

Weaknesses: • Underlying markets are highly volatile (also primary source of returns)

- Potential capacity constraints
- Better suited to medium to long term investors

Opportunities: • Operates in markets that are relatively new and inefficient
Diversification - as an asset class currencies have a low correlation to traditional asset classes

Threats: • The use of derivatives can magnify both returns and losses

- Increased market efficiencies over time

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Main risk: volatility of the spot price (but the fund primarily-in particular in electricity-trades the forward market)

- Volatility of returns:

Low / Moderate

- Leverage: derivatives (in-built); at fund level:

Low

- Liquidity risk:

Low / Moderate

- Counterparty risk:

Low / Moderate

(main counterparty is currently the Sydney Futures Exchange and for the futures (with OTC) counterparties are highly rated companies and government entities)

- Political and/or legislative risk:

Low / Moderate

- Regulatory risk:

Low / Moderate

- Market risk:

Low / Moderate

- Currency risk: (at fund level)

Low

- Key man risk:

Low / Moderate

Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- Targeted returns: in excess of 20% (after all fees) per annum
- Value at Risk (daily 99%) has averaged 6-7% in the 12 months since inception (1-Aug-06). (stop loss activated at 5% daily loss on portfolio or 10% cumulative monthly)
- Time required to unwind entire portfolio under normal market circumstances: could be 2-5 days.

- Diversification:

- Strategies: value and basis trading, flow trading, origination, event driven, physical asset support and structured deals.

- Geographic: primarily Australia

(except CO2 emissions, which may be global)

- Avg. duration of trade: ranging from several days in duration to several months

- Efficiency achieved in placing investor capital to work: High

Outlook

- Barriers to entry: Market complexity, limited skilled resources, time to market (OTC)
- Threat posed by competition: niche player in the Australian power and environmental related markets. new entrants are likely but maintain early entrant's edge

- Scope for trading and investing in environment led derivatives: upside

- Scope for a fund such as Attunga: upside

- Potential for growth (over the long term): 5

Investment

- Current AuM: AUD50 mn
- Targeted AuM: AUD100 – 250 mn
- Fund is targeted at: sophisticated investors
- Geographic restrictions: none

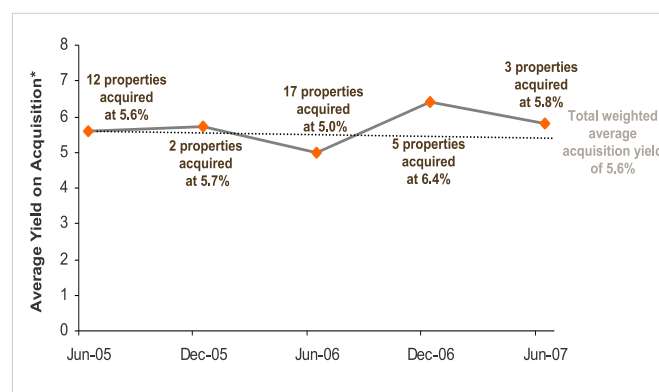
- Fund structure: unit trust, offers transparency and tax efficiency
- Complexity for an investor: high
- Australian Financial Services Licenced (AFS Licence number 297385)

Contact Information:

Attunga Capital Pty Ltd
Managing Director: Ian Gibson

Telephone : +61 2 9293 2553
Email : ian@attungacapital.com.au
Website : www.attungacapital.com.au

REAL ESTATE



Avg. Yields achieved on acquisitions (yield= net operating income/purchase price)

Source: BJT

BABCOCK & BROWN JAPAN PROPERTY TRUST

Focus: Babcock & Brown Japan Property Trust is a listed property trust with a strategy that invests in the real estate market of Japan.

- Property portfolio as at 30 June 2007: JPY120.6 bn
- It currently holds interests in a portfolio comprising 39 properties: office, 16 retail, 20 office, 3 residential
- Acquire a stake in properties which:
 - Are expected to provide sustainable earnings
 - offer opportunities to create value including through redevelopment, repositioning and applying more pro-active and cost-effective asset management; or
 - Are development projects where the risks associated with such projects can be reasonably mitigated through joint ventures, pre-commitments from tenants or other measures.
- Properties are acquired at no more than fair market value as determined by an independent qualified Japanese property appraiser.

Strengths: • Provides exposure to the office and retail real estate markets in the central and greater Tokyo area

- Expertise of local team - active in Japan since 1998 (which is when they identified structural changes, as well as significantly lower overall pricing compared to the early 1990s, gave rise to attractive real estate investment opportunities)
- Track record in acquiring well located properties at strong yields, despite the firming of capital rates in the Japanese market

Weaknesses: • Possibility of failure by a tenant to pay rent

- Reduction in occupancy rates
- Unforeseen capital expenditures that would increase the trust's funding costs
- Sensitivity to Japanese interest rates

Opportunities: • Significant investment opportunities are available - Japanese economy (market size)

- Continues to undergo major structural changes - attractive property yields relative to the cost of debt funds







Threats: • Man-made (terrorism), natural catastrophes (occurrence of earthquakes)



- Changes in the property market, especially changes in the valuations of properties and in market rents.
- Changes in political, legal, regulatory , economic conditions in Japan

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Major risk : Major risk to BJT's investment strategy would be an unexpectedly strong increase in interest rates that would not be accompanied by growth in rents
- Trust's ability to sustain, purchase price which is at a discount to the valuation of the relevant property: ☐☐☐☒☐
The market in Japan has traditionally been, and still remains, very much relationship driven, with the majority of property transactions taking place "off-market". It is therefore possible to find value if one does not compete for some of the major trophy assets in Central Tokyo which generate more competitive bidding.
- Property valuation related risk: ☐☒☐☐☐
valuations for all properties at the time of acquisition and then periodically thereafter, are acquired from a range of independent qualified Japanese property appraisers.
- Due diligence skills: ☐☐☐☒☐

- Trust's ability to secure properties (i.e. pipeline) 
- Ability to match rate and duration of vacancies following the expiry or cancellation of leases: 
- Liquidity: 
- Leverage related risk: Target gearing range of 50-60% (interest bearing debt/property value) 51.1% as of 31.05.07 
- Exchange rate risk: (hedged) 
- Interest rate risks: 

uses interest rate hedging instruments to reduce the Trust's exposure to changes in interest rates
- Capital Hedging - policy- between 10%-30% of the Trust's net investments in Japanese assets will be hedged against currency fluctuations on an ongoing basis 
- Key man risk: 

Contact Information:

Contact information:
Babcock & Brown Japan Property Trust,
Managing Director, Eric Lucas

Telephone : +61 2 9229 1800 (Australia) +81 3 3238 1671 (Japan)
Email : eric.lucas@babcockbrown.com
Website : www.bb-japan-property-trust.com

REAL ESTATE

BABCOCK & BROWN JAPAN PROPERTY TRUST

Performance Parameters

Low
 Low / Moderate
 Moderate
 Moderate to High
 High

- No. of properties currently in the portfolio: 39
- Trusts ability to efficiently allocate capital: Since listing -grown its portfolio by 150% and funded distributions fully from operating cash flow
- Ability to achieve and maintain a balance between cancellable :non-cancellable leases: (no. of leases as of 31.05.07 =361 :39% non-cancellable leases by income)
- Avg. term to expiry of non cancellable leases 9.1 years (provide stability to the trust's income)
- Total Return since BJT's listing (1 Apr 05) thru 7 Aug 07
 - BJT: 103%;
 - S&P/ASX200: 62.17%
- S&P/ASX200 Property: 45.98%
- Trusts performance could be challenged if:
Increased supply of office and/or retail properties in the central and greater Tokyo area may affect the ability to secure lease renewals or obtain replacement tenants and increase the time required to let vacant space.
- Annual expense ratio:
2006 base fee AUD4,262,000/AUM AUD1.1bn = 0.76%

Outlook

- Barriers to entry: Expertise
- Outlook for Japanese real estate: Upside potential to range bound
- Outlook for BJT Trust: Upside potential
- Prospects:
 - Offer attractive distribution yield
 - Improved occupancy supports planned rental negotiations with tenant retention and income growth
- Rental increases are being negotiated during lease terms in addition to upon expiry
- Threat posed by competition: head start advantage; market large enough to cope with new entrants

Investment

- AuM : JPY120.6 bn
- Targeted at: Sophisticated Investors
- Geographic restrictions: Apply
- Asset base currency: JPY (partially funding currency AUD)
- Trust is listed on the ASX
- Transparency provided: Very high
- Complexity of strategy: Simple
- The Responsible Entity of the Trust is Babcock and Brown Japan Property Management Limited, a subsidiary of Babcock & Brown. Asset management services

SOCIALLY RESPONSIBLE FORESTLAND INVESTING

FOREST LEGACY INVESTMENTS, LLC



Chris Fountain

What role does the environmental perspective have to play in improving the investment profile for timberland? How is this perspective informed?

We accomplished this by using a number of tools such as selling and/or donating conservation easements* and developing non-timber revenue from environmental services (e.g., carbon credits). For instance, we may sell or donate a conservation easement that restricts development on a property to a conservation organisation. Another, may be selling a conservation easement that promotes sustainable harvesting or requires a particular forest management regime, not only while we manage it, but as a condition of ownership for future buyers. These approaches are designed to provide our investors with economic advantages such as potential deal sourcing benefits and creating a less volatile investment.

Timberland property values in today's marketplace often reflect a non-timber or higher and better use (HBU) component. The HBU component represents a property's potential for generating value by something other than growing trees. In most cases this value is future conversion to residential or commercial real estate. By selling or donating a conservation easement that conveys future development rights (i.e., restricts or removes development rights) we are able to immediately capture the HBU value of the property and can eliminate the future speculative risk on this value. This approach helps create more of a "pure play" timber investment as opposed to a timberland investment mixed with speculative real estate value.

The environmental perspective is informed through our own knowledge of the general threats to forests, most notably population encroachment on forests, as well as from intelligence gathered from local, regional and national land trusts and conservation organisations as well as governmental entities – whom we partner with.

How do you address the inherent conflicts of achieving attractive investment targets and environmental goals? Do you ever receive conflicting opinions regarding environmental priorities and how do you decide which environmental needs get priority?

The specific conservation strategies of our funds are largely dependent on the individual forestland property, market opportunity, and the fund investors, but all have the long-term health of our forests as an important goal. Hence our conservation plans are conceptualised to span not just the next decade or two, but the next century. Environmental goals that this approach can achieve include (but are not restricted to): FSC certified sustainable harvesting, permanent protection from development, watershed protection, habitat protection, and providing buffer zones to sensitive habitats.

In most cases our assessment of a parcel's environmental threats match conservation groups' assessments. Our intent is to work closely with conservation organizations and environmental consultants on each investment. With challenges such as conversion of forests to development and/or fragmentation, there is widespread agreement to focus efforts on those issues. There may be some variances about third-tier environmental challenges, but those are generally resolved by working with our strategic partners.

What sets Forest Legacy Investments apart from other timberland investment managers?

While the idea of socially/environmentally managed timber investments has been circulating for some time, there are relatively few practitioners. Forest Legacy Investments is a specialty timberland advisory firm with a mission to conserve forestland while earning a healthy return for our investors. These outcomes are compatible as we pair conservation capital with private equity in order to manage the forestland with both investment and ecological concerns in mind.

Along with investment goals, Forest Legacy Investments commits to meet or exceed certain environmental outcomes with each fund.

There is much to know about each region in terms of tree species, soil, growing conditions, products derived from the logs, land owners big and small, market conditions, third party managers and service providers, and mill owners, to name a few. We know the Western US, and foster relationships with the best of breed providers.

(*A conservation easement is a land use restriction. It is a legal agreement between a landowner and a land trust or government agency that permanently limits uses of the land and protects its conservation values)

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8 Samou Street
St. Omologites
Nicosia 1640
Cyprus

Phone: +49-89-2351 3055
Email: info@opalesque.com