

Premium Income Fund

NSX and Media Release
15 October 2008



Wellington

PREMIUM INCOME FUND – RESULTS OF ADJOURNED EXTRAORDINARY GENERAL MEETING

The adjourned Extraordinary General Meeting of unitholders in the Premium Income Fund was held this morning. Each of the three resolutions put to the meeting were passed on a show of hands.

For the purposes of section 251AA of the *Corporations Act 2001*, the resolutions set out in the Notice of Meeting dated 18 August 2008, were passed on a show of hands. A copy of the Notice of Meeting and Explanatory Memorandum dated 18 August 2008 are attached. They should be read in conjunction with the Corrective Notice released on 30 September 2008.

Set out below is the proxy information required by section 251AA:

	Open	For	Against	Abstain
Resolution 1 – Change of Constitution	113,887,465	421,552,691	32,190,268	2,379,459
Resolution 2 – Buy Back Authorisation	113,893,797	412,435,305	40,342,225	3,338,556
Resolution 3 – Change in Responsible Entity	113,775,948	387,083,658	67,678,820	1,427,510

Trading in the Funds units on NSX will occur on Thursday 16 October 2008.

The Chairperson, Jenny Hutson said ‘I am delighted that the unitholders in general meeting today have supported Wellington and the way forward for the Premium Income Fund is now clearly defined.’

For further information please contact:

Jenny Hutson
Chairperson
Wellington Investment Management Limited
as responsible entity of the Premium Income Fund
Phone: 1300 854 885
Email: jhutson@wellcap.com.au

#16637v1

Notice of Meeting

Premium Income Fund ARSN 090 687 577



Notice is given by Wellington Investment Management Limited ACN 101 634 146, AFSL No. 246553 (Manager) that a meeting of the Premium Income Fund ('Fund') will be held at:

Location	Gold Coast Convention and Exhibition Centre Cnr T E Peters Drive and Gold Coast Highway, Broadbeach
Date	Thursday, 18 September 2008
Time	10.00am

Special Business

The Manager has called the meeting for the purpose of:

- ✳ proposing a special resolution for Unitholders to approve amendments to the Constitution of the Fund;
- ✳ proposing an ordinary resolution for Unitholders to authorise and approve the off-market Unit buy-back ('Buy-back') on the terms set out in the Explanatory Memorandum; and
- ✳ proposing that Wellington Investment Management Limited retire as responsible entity of the Fund and its reason for retiring and proposing an ordinary resolution for Unitholders to choose Wellington Capital Limited ACN 114 248 458 as the new responsible entity for the Fund.

Resolutions

1. AMENDMENT OF THE CONSTITUTION OF THE FUND

To consider, and if in favour pass the following resolution as an extraordinary resolution:

'That the Constitution tabled at the meeting, and signed by the Chairperson of the meeting for the purposes of identification, be adopted as the constitution of the Premium Income Fund, in place of the present Constitution, with effect from the close of the meeting.'

2. BUY-BACK PROPOSAL

To consider, and if in favour pass the following resolution as an ordinary resolution:

'That Unitholders authorise and approve the buy-back by the Fund of its issued Units under an off-market Unit buy-back of up to 5% of the Units in the Fund at 45 cents and on such other terms and conditions as detailed in the Explanatory Memorandum accompanying this Notice of Meeting.'

Last time and date for lodgement of Proxy Forms	10.00 am Tuesday 16 September 2008 ANY PROXY FORM RECEIVED AFTER THAT TIME WILL NOT BE VALID
By mail	Reply Paid 694, Brisbane Qld 4001 using the enclosed reply paid envelope
By delivery	Level 22, 307 Queen Street, Brisbane Qld 4000
By facsimile	1300 854 893

Notice of Meeting

Premium Income Fund ARSN 090 687 577



3. RETIREMENT AND APPOINTMENT OF RESPONSIBLE ENTITY OF THE FUND

To consider, and if in favour pass the following resolution as an ordinary resolution:

'That Wellington Capital Limited ACN 114 248 458 be appointed as the new responsible entity of the managed investment scheme known as the Premium Income Fund on the retirement of Wellington Investment Management Limited.'

Dated 18 August 2008

By order of the board

Mary-Anne Greaves
Company Secretary
Wellington Investment Management Limited

Notes

- * A Unitholder who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- * The proxy need not be a Unitholder of the Fund. A Unitholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- * If you wish to appoint a proxy and are entitled to do so, then complete and return the attached proxy form.
- * A corporation may elect to appoint a representative in accordance with the *Corporations Act 2001* (Cth) in which case Wellington Investment Management Limited will require written proof of the representative's appointment which must be lodged with or presented to Wellington Investment Management Limited before the meeting.
- * If you have any queries on how to cast your votes then call the Wellington Hotline on 1300 854 885 during business hours.
- * The proxy form (and the original or a certified copy of any power of attorney under which it is signed) must be received by Wellington Investment Management Limited not later than 10.00 am on 16 September 2008 by mail, hand delivery, or facsimile.

Last time and date for lodgement of Proxy Forms	10.00 am Tuesday 16 September 2008 ANY PROXY FORM RECEIVED AFTER THAT TIME WILL NOT BE VALID
By mail	Reply Paid 694, Brisbane Qld 4001 using the enclosed reply paid envelope
By delivery	Level 22, 307 Queen Street, Brisbane Qld 4000
By facsimile	1300 854 893



Wellington

PREMIUM INCOME FUND

Explanatory Memorandum

In relation to the Meeting of Unitholders in the Premium Income Fund ARSN 090 687 577 to be held at

Location	Gold Coast Convention and Exhibition Centre Cnr T E Peters Drive and Gold Coast Highway, Broadbeach, Queensland
Date	Thursday, 18 September 2008
Time	10.00am

This document is important and requires your immediate attention.

Unitholders should contact their professional adviser or the Wellington Hotline on 1300 854 885 if they have any questions about the proposed resolutions.

Wellington Investment Management Limited
as responsible entity of the Premium Income Fund
ACN 101 634 146 AFSL 246553

Important Notice

Wellington Investment Management Limited ACN 101 634 146, the holder of Australian Financial Services Licence No. 246553, is the responsible entity of the Premium Income Fund ARSN 090 687 577. The responsible entity is the issuer of the Notice of Meeting and Explanatory Memorandum.

This Explanatory Memorandum is an important document and should be read in its entirety. The Explanatory Memorandum is dated 18 August 2008.

Investments in the Fund are not deposits with or liabilities of the responsible entity and are subject to investment and other risks, including possible loss of income and capital invested. This Explanatory Memorandum includes information regarding the past performance of the Fund. Unitholders should be aware that past performance should not be relied upon as being indicative of future performance. The responsible entity does not guarantee any particular rate of return on Units, the performance of the Fund or repayment of capital.

In particular, this Explanatory Memorandum contains certain statements which relate to the future, including forecast statements relating to the Fund and forecast performance, financial position and strategy. These forecast statements are not guarantees of future performance. Neither the responsible entity, the Fund nor any other person gives any representation, assurance or guarantee that the results, performance or achievements expressed in or implied by the forecast statements contained in this Explanatory Memorandum will actually occur.

This Explanatory Memorandum is not financial product advice. Unitholders should seek their own financial advice.

It is important that Unitholders read the entire Explanatory Memorandum before making any decision. In particular, in considering the prospects of the Fund, it is important that Unitholders consider the risk factors that could affect the performance of the Fund. Unitholders should carefully consider these factors in light of their particular objectives, financial situation and needs (including financial and taxation issues) and seek advice from their own professional advisers. Some of the risk factors that should be considered are set out in section 4.

The meeting of Unitholders to decide the way forward for the Premium Income Fund will be held on:

Date:	18 September 2008
Time:	10.00am
Place:	Gold Coast Convention and Exhibition Centre, Cnr TE Peters Drive and Gold Coast Highway, Broadbeach, Queensland

Unitholders can vote by proxy or in person. Proxies should be:

POSTED TO: GPO Box 694
Brisbane Qld 4001

OR FAXED TO: 1300 854 893

OR DELIVERED TO: Level 22, 307 Queen Street
Brisbane Qld 4000

THE THREE RESOLUTIONS AND PROFILE OF THE FUND AT A GLANCE

The three resolutions	<p>The responsible entity proposes three separate resolutions. Each resolution is independent. If all three resolutions are approved:</p> <ul style="list-style-type: none"> ✿ The Fund will remain a going concern and Units in the Fund will be able to be traded on the NSX; ✿ Up to 37.75 million units in the Fund will be redeemed by the Fund at 45 cents per unit by 18 September 2009; ✿ Wellington Capital Limited will be the new responsible entity of the Fund; and ✿ Cash payments totalling 3 cents per Unit will be made to Unitholders by 24 December 2008 and quarterly thereafter, with the first payment to be made in October 2008.
Net Asset Backing	<p>The net asset backing per Unit in the Fund, assuming it remains a going concern, is 45 cents per unit plus any amount recovered from MFS.</p> <p>The net asset backing per Unit in the Fund assuming all assets are sold by 31 March 2009 is 14 cents per unit plus any amount recovered from MFS (see section 6.1 for details).</p>
Diversified Exposure	<p>The assets of the Fund are diversified and include investments in:</p> <ul style="list-style-type: none"> ✿ Mortgages; ✿ Asset backed securities; ✿ Property managed investment schemes; ✿ Fixed interest investments; and ✿ Cash. (see section 2).
Access to Funds	<p>The Fund has been admitted to the official list of the National Stock Exchange ('NSX') and if the amendments being proposed to the Constitution are approved Units will be able to be traded on NSX (see section 3.5). Subject to Resolution 1 being passed, trading is expected to commence on 19 September 2008.</p>
Responsible Entity	<p>The Fund's current responsible entity is Wellington Investment Management Limited, a wholly owned subsidiary of Wellington Capital Limited. A resolution approving the appointment of Wellington Capital Limited is proposed. (see section 1.2)</p>
Custodian	<p>The Custodian is Perpetual Nominees Limited, established in 1885 (see section 5.8).</p>
Risks	<p>An investment in the Fund is subject to a number of risks (see section 4).</p>

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Wellington

PREMIUM INCOME FUND

18 August 2008

Dear Investor,



18 SEPTEMBER MEETING

I am pleased to provide you with the Notice of Meeting and this Explanatory Memorandum in relation to the general meeting of Unitholders in the Premium Income Fund to be held on 18 September 2008. Three resolutions are proposed. It is the recommendation of each of the current directors of Wellington Investment Management Limited that you vote in favour of each of the proposed resolutions. If all three resolutions are approved the Fund will have the following features:

- ✿ the Fund will remain a going concern and Units in the Fund will be listed on the NSX and will be able to be bought and sold;
- ✿ a buy-back of up to 37.75 million of the Units at 45 cents per Unit will occur by 18 September 2009;
- ✿ cash payments totalling 3 cents per Unit will be made by 24 December 2008 with the first payment to be made in October 2008, the second in December 2008 and quarterly thereafter;
- ✿ Wellington Capital will be the new responsible entity and will be paid 0.7% per annum of funds under management as its management fee, plus it will be reimbursed for expenses incurred on behalf of the Fund. Payments will commence after the 3 cent cash payment has been made to Unitholders;
- ✿ redemptions will cease completely; and
- ✿ an Investor Advisory Committee will be elected by Unitholders. The Investor Advisory Committee will liaise directly with Wellington in relation to Unitholders' issues.

If the resolution in relation to the proposed constitutional changes is not passed then the Constitution will remain unchanged. Unless Unitholders in general meeting subsequently approve changes to the Constitution Unitholders will be entitled to redeem their investment in the Fund at the end of the current 360 day redemption suspension period.

The redemption suspension expires in early 2009. It is the opinion of the current board that the net asset backing per Unit and therefore the cash payable to Unitholders in those circumstances would be 14 cents per Unit (plus any amount recovered from MFS).

If the proposed Constitutional changes are passed the Fund will continue as a going concern and the responsible entity will be able to manage the assets of the Fund with the aim being to maximise the outcome for Unitholders. The directors are of the view that the net asset backing per Unit on this basis would be 45 cents per unit (plus any amount recovered from MFS).

I strongly believe Unitholders will achieve a better return through the continuation of the Fund. I encourage you to vote in favour of each of the resolutions and return the attached proxy form or attend the general meeting on 18 September 2008.

Kind regards

Jenny Hutson

Chairperson

Wellington Investment Management Limited

ACN 101 634 146 AFSL 246 553

Level 22 307 Queen Street Brisbane Qld 4000 GPO Box 694 Brisbane Qld 4001
T 1300 854 885 F 1300 854 893 E enquiries@newpif.com.au W www.newpif.com.au

ADVANTAGES OF THE PROPOSED CHANGES

Cash Payments Recommence	The responsible entity anticipates being in a position to pay 3 cents per Unit to all Unitholders by 24 December 2008 with the first payment being made in October 2008, the second in December 2008 and quarterly thereafter.
Established and Experienced Management	Wellington has a team of 30 professional staff responsible for the assets of the Fund. Wellington currently has over \$1 billion in assets under management.
Listed Investment	The Fund has been admitted to the official list of the NSX and upon the proposed amendments to the Constitution being approved, Units in the Fund will be able to be traded on NSX.

DISADVANTAGES OF THE PROPOSED CHANGES

Redemption right is extinguished	The proposed changes to the Constitution extinguish the right of Unitholders to redeem Units. In the absence of redemption rights the two ways to exit will then be: <ul style="list-style-type: none"> ✿ sale of Units on NSX to a third party; ✿ participation in the Buy-Back proposal at 45 cents per Unit which is planned within 12 months.
Price trading on NSX may not be at market price or net asset backing.	The Units in the Fund will commence trading at a difficult time in the market. It is uncertain at what price Units will trade. It may be that Units will trade at a significant discount to the net asset backing per unit.

ALTERNATIVES TO THE PROPOSED CHANGES

Unitholders have a right under the Constitution to call a general meeting and consider other alternatives.

If the resolution to change the Constitution is not approved and no alternative option is subsequently presented to and approved by Unitholders the board is of the view that the assets of the Fund will need to be liquidated to enable the net proceeds to be paid to Unitholders.

HOW TO VOTE ON THE PROPOSED RESOLUTIONS

- ⇒ **Read the notice of meeting and explanatory memorandum**
- ⇒ **Complete the yellow proxy form enclosed and**
POST TO
GPO Box 694
Brisbane Qld 4001
- OR FAX TO 1300 854 893**
- OR DELIVER TO**
Level 22, 307 Queen Street
Brisbane Qld 4000

Unitholders can vote by:

- ⇒ returning a proxy form; or
- ⇒ voting at the meeting.

IF YOU HAVE ANY QUESTIONS

Please call the Wellington Hotline on

Phone: 1300 854 885 (+617 3231 0000)

Fax: 1300 854 893 (+617 3231 0093)

Email: egm@newpif.com.au

DEFINED TERMS

Words with initial capital letters throughout this Explanatory Memorandum are defined in this section.

Term	Definition
AAS	Australian Accounting Standards.
AFSL	Australian Financial Services Licence.
AGAAP	Australian Generally Accepted Accounting Principles.
ASIC	Australian Securities and Investments Commission.
Authorised Investments	the authorised investments of the Fund, as set out in section 3.1 of this Explanatory Memorandum and in the Constitution.
CGT	Capital Gains Tax.
Compliance Committee	the compliance committee of the Fund which monitors the Fund's compliance with the Corporations Act and other legislation.
Compliance Plan	the compliance plan that establishes a framework for monitoring the operation of the Fund, as amended from time to time.
Constitution	the Constitution of the Fund, as amended from time to time.
Corporations Act	the Corporations Act 2001 (Commonwealth).
Custodian	an independent organisation responsible for holding of the financial assets of the Fund which, at the date of this Explanatory Memorandum, is Perpetual Nominees Limited (ABN 37 000 733 700). Perpetual Nominees Limited, a related corporation of Perpetual Trustee Company Limited, acts as an Authorised Representative, Australian Financial Services Licence number 236643 (Authorised Representative number 266798).
Custody Agreement	the custody agreement between the Custodian and the responsible entity.
Directors	the directors of the responsible entity.
Fund	the trust constituted by the Constitution and known as the Premium Income Fund ARSN 090 687 577 and previously known as the Octaviar Premium Income Fund and the MFS Premium Income Fund.
GST	goods and services tax.
Investor	a Unitholder or prospective Unitholder in the Fund.

Term	Definition
LVR	loan to valuation ratio. It is the ratio of the debt funding amount (i.e. provided by the lender to the Fund) as against the lender's ascribed value to the properties.
Management Costs	fees and costs for managing the assets of the Fund, including management fees payable to the responsible entity and Fund expenses.
Management Fees	fees payable to the responsible entity for managing Unitholders' investment in the Fund.
MFS Limited or MFS	MFS Limited (ABN 90 107 863 436) now known as Octaviar Limited and its subsidiaries.
MFS Support Facility or Support Facility	a contractual arrangement between the responsible entity of the Fund and MFS, for MFS to provide callable funds (up to a limit) to the Fund to meet distributions, expenses and capital losses of the Fund in the event of a shortfall arising.
Net Asset Value	the total value of all investments in the Fund including any realised and unrealised movements and accrued income less liabilities.
NSX/National Stock Exchange	National Stock Exchange of Australia Limited.
NSX Listing Rules	the listing rules of the NSX.
PDS	the Product Disclosure Statement dated 2 July 2007, under which the latest subscriptions for Units were made.
Related Party	has the meaning given to that term by the Corporations Act.
Subscriptions	the amount originally subscribed by and allotted to Unitholders.
Subsidiary	has the meaning given to that term by the Corporations Act.
Tax Deferred	that component of cash payments from the Fund that are not taxed.
Unit	a unit in the Fund.
Unitholder	a holder of Units in the Fund.
Unitholding	the unitholding of a Unitholder in the Fund.
Wellington Capital or Wellington Capital Limited	Wellington Capital Limited ACN 114 248 458 AFSL 291562.

RESOLUTIONS 1, 2 AND 3

1. RESOLUTIONS 1, 2 AND 3

The information set out in this section is a summary only. It should be read in conjunction with the information contained in the remainder of this Explanatory Memorandum and the Notice of Meeting.

1.1 Introduction and Background

The Premium Income Fund ARSN 090 687 577 is a registered managed investment scheme domiciled in Australia. The Fund was registered on 22 December 1999 and is currently managed by Wellington Investment Management Limited.

The Fund's principal activity is the receipt and investment of Unitholders' funds in mortgages, equity, debt instruments and cash.

There are currently 755,195,542 Units in the Fund on issue. As at the date of this Explanatory Memorandum the Fund has 10,387 Unitholders.

Date	Corporate Event
December 1999 (date of registration of the Fund)	McLaughlins Financial Services Limited ACN 088 647 796 was manager of the Fund.
October 2000	The MFS Capital Insured Income Fund changed its name from MFS Master Mortgage Trust.
November 2003	The MFS Premium Income Fund changed its name from MFS Capital Insured Income Fund.
September 2004	McLaughlins Financial Services Limited ACN 088 647 796 retired as responsible entity.
September 2004	MFS Investment Management Limited ACN 101 634 146 (AFSL 246 533) was appointed responsible entity.
May 2008	The new board is appointed.
March 2008	The Octaviar Premium Income Fund changed its name from MFS Premium Income Fund.
March 2008	MFS Investment Management Limited changed its name to Octaviar Investment Management Limited.
June 2008	The Premium Income Fund changed its name from Octaviar Premium Income Fund.
June 2008	Octaviar Investment Management Limited changed its name to Wellington Investment Management Limited.
June 2008	Wellington Capital Limited purchased 100% of the shares in Wellington Investment Management Limited

The responsible entity of the Fund is now Wellington Investment Management Limited, a wholly owned subsidiary of Wellington Capital Limited ACN 114 248 458.

Wellington Capital Limited is an unlisted public company. The Wellington group has over \$1 billion in assets under management in wholesale and retail funds.

Suspension of Payments

As at the date of this Explanatory Memorandum the processing and payment of all redemption requests for the Fund have been deferred for up to 360 days, distribution payments have ceased and the PDS (both part A and B) issued on 2 July 2007 and Supplementary Disclosure Statement of the Fund issued on 7 January 2008, have been withdrawn.

1.2 The Resolutions

Change of Constitution – Resolution 1

The Fund has been admitted to the official list of NSX and the responsible entity has made application to list the Units in the Premium Income Fund on the NSX.

As part of that process the responsible entity has determined that a number of amendments are required to be made to the Constitution of the Fund to comply with the NSX Listing Rules and enable the commencement of trading of Units in the Fund on the NSX. The Fund is currently admitted to the official list of NSX however trading in Units has not yet commenced. The proposed changes to the Constitution of the Fund include the changes required in order for the Fund to comply with the NSX Listing Rules.

The Constitution is the primary document which governs the Fund. The responsibilities of the responsible entity, together with all duties, obligations and rights pertaining to the Fund, are set out in the Constitution.

Investors may obtain a copy of the current Constitution and proposed amendments to the Constitution with the amendments highlighted free of charge from the responsible entity. The provisions of the Corporations Act as well as the NSX Listing Rules affect the operation of the Fund.

Amendment

The Constitution may be amended:

- ✳ by the responsible entity, where the responsible entity reasonably believes that the rights of Unitholders would not be adversely affected by the amendment; or
- ✳ unless otherwise stated, by special resolution of Unitholders.

The responsible entity is proposing a resolution of Unitholders to amend the Constitution. A summary of the proposed amendments to the Constitution is set out below.

Existing Constitution	Proposed Constitution
Withdrawal Unitholders are currently entitled to withdraw from the Fund by lodging a redemption request at the conclusion of their investment term.	Unitholders will not be able to withdraw from the Fund, other than by sale of their units or through a limited buy-back arrangement when proposed by the responsible entity.

Existing Constitution	Proposed Constitution
Sale of Units Does not exist in the current Constitution.	Unitholders may, in accordance with the NSX Listing Rules and the ASTC Settlement Rules trade Units in the Fund on the NSX.
Calculation of Unit Entitlement The Unit Entitlement in relation to a Unit is currently determined in accordance with the following formula $UE = \frac{DA \times UD}{TUD}$ Where: UE is the Unit Entitlement DA is the Distributable Amount UD is the Unit Days for that Unit for the Distribution Period TUD is the sum of the Unit Days for all Units for the Distribution Period	The Unit Entitlement in relation to a Unit is to be determined in accordance with the following formula $UE = \frac{DA}{\Sigma U}$ Where: UE is the Unit Entitlement DA is the Distributable Amount ΣU is the total number of Units on issue in the Fund
Calculation of unit days Description of calculation of Unit Days	Removed from proposed Constitution
Loans in default/Early repayment Description of the fees that the responsible entity is entitled to in the event of a loan default or early repayment of a loan which comprises part of the Fund portfolio.	Removed from proposed Constitution – the responsible entity will not be entitled to such fees.
Quorum Two Unitholders present constitute a quorum for a general meeting.	Two Unitholders present constitute a quorum except for a meeting at which any resolution is proposed (whether ordinary or extraordinary) to remove Wellington Capital Limited as Responsible Entity of the Fund. The quorum for a meeting at which any resolution is proposed (whether ordinary or extraordinary) to remove Wellington Capital Limited as Responsible Entity of the Fund, is a minimum of four persons representing in person, by proxy or attorney at least 51% of Units on issue in the Fund by number. The quorum for a meeting at which any resolution is proposed to change the clauses of the Constitution which deal with required quorums, require a quorum of at least four persons representing in person, by proxy or attorney at least 51% of Units on issue in the Fund by number.

Existing Constitution	Proposed Constitution
Remuneration of Responsible Entity <p>At the end of each month, and subject to the payment of all withdrawal requests and distributions owing, the Responsible Entity is entitled to charge as a management fee all remaining surplus generated by the Fund during the previous month.</p>	<p>The responsible entity is entitled to be paid a management fee monthly in advance equivalent to 0.7% per annum of the value of funds under management of the Fund. This fee will be calculated with reference to the value of funds under management at the end of the previous month.</p>
Fees upon removal of Responsible Entity <p>Not in existing Constitution.</p>	<p>In the event that Wellington Capital Limited is appointed as Responsible Entity of the Fund and is subsequently removed without its consent for any reason other than negligence or fraud, Wellington Capital Limited will be entitled to a fee of 2% of the funds under management.</p>

NSX Listing

The directors of the current responsible entity believe that an NSX listing is in the best interests of Unitholders for the following reasons:

- ✿ to provide liquidity to current Unitholders, given the recent freeze on redemptions and the current illiquidity of the Fund; and
- ✿ given the current position of the Fund, it is likely that there will be insufficient assets in the Fund to allow Unitholders to redeem their invested funds at the current net asset backing. The directors are of the opinion that a change in the structure of the Fund which extinguishes the Unitholders' right to redemption and enables Units to be traded on NSX will provide a better return to Unitholders.

Redemption Provisions

At present, provisions in section 4 of the Constitution of the Fund relate to rights of Unitholders to redeem Units.

The proposed changes to the Constitution remove the redemption provisions. If approved the responsible entity will be under no obligation to permit withdrawal from the Fund other than by way of a Unitholder effecting a secondary sale of their Units on the NSX or by way of buy-back. Unitholders should consider this when assessing the proposed constitution changes.

Revised quorum provisions

It is proposed to amend the Constitution to amend the quorum requirements applicable to a meeting at which it is proposed to pass any extraordinary resolution including any resolution (whether extraordinary or ordinary) to remove a subsequent responsible entity. Meetings in relation to such a resolution will require a quorum of at least four Unitholders (present in person, by proxy or attorney) holding collectively at least 51% of the Units by value. This part of the Constitution will have a practical effect only if Resolution 1 and Resolution 3 are both passed.

This amendment if passed will not affect the normal quorum provision that will apply to meetings at which any other resolution is proposed, which will be two Unitholders present in person, by proxy or

attorney regardless of their proportionate Unitholding. The new quorum provisions may limit Unitholders' ability to remove Wellington Capital Limited as responsible entity.

Revised fee provisions

Amendments to the fee provisions of the Constitution propose that the responsible entity be paid, monthly in advance, a fee for managing the Fund of 0.7% of the value of funds under management. The responsible entity is entitled under existing and continuing provisions to recover at cost expenses incurred on the Fund's behalf. For example, if the responsible entity itself paid the Custodian on behalf of the Fund it would be entitled to recover that expense at cost.

Fees upon removal

The removal fee of 2% is payable if Wellington Capital Limited becomes the responsible entity of the Fund and is subsequently removed without consent. If this occurs, this payment would adversely affect the Fund's net assets as the fee would be paid from available cash or through the liquidation of assets of the Fund.

What happens if this resolution is not approved

In the event Unitholders do not vote in favour of the proposed changes to the Constitution, the Fund's Units will not be traded on NSX, and the changes which are proposed will not be made. The current board is of the view that redemption requests would only be able to be met if the assets of the Fund were sold. It is expected that this would be completed by early 2009 and Unitholders would receive approximately 14 cents per Unit.

This resolution must be passed as a special resolution of the Fund's Unitholders i.e. passed by at least 75% of the votes cast by Unitholders in the Fund who are entitled to vote, in proxy or in person at the meeting.

Each of the directors of the current responsible entity have carefully considered all of the current circumstances, and recommend that Unitholders vote in favour of the resolution.

Buy-Back Proposal – Resolution 2

The responsible entity anticipates being in a position to invoke a buy-back proposal of Units in the Fund which will give Unitholders the opportunity to have their Units in the Fund bought back under certain arrangements within 12 months of the listing of the Units on the NSX.

The buy-back proposal will be made on the following terms:

- ✿ the off market buy-back price will be 45 cents per Unit. The buy-back price has been arrived at after considering a number of criteria in accordance with the relevant provisions of the Constitution;
- ✿ the maximum number of Units that will be bought back under the off market buy-back will be 37.75 million of the current Units. Unitholders will be able to accept for the first 10,000 Units held by them. If the number of acceptances under the off market buy-back exceed 10,000 Units per Unitholder acceptances will be met on a pro-rata basis;
- ✿ the off market buy-back is to be funded through asset realisations.

The responsible entity will write to each Unitholder providing them with an opportunity to have their Units bought back at the time that the responsible entity determines it is in a position to implement the buy-back proposal.

What happens if this resolution is not approved

In the event Unitholders do not vote in favour of the buy-back proposal, no Units will be bought back at 45 cents per Unit by the Fund.

This resolution must be passed as an ordinary resolution of the Fund's Unitholders i.e. passed by at least 50% of the votes cast by Unitholders in the Fund who are entitled to vote, in proxy or in person at the meeting. Each of the directors of the current responsible entity have carefully considered all of the current circumstances, and recommend that Unitholders vote in favour of the resolution.

Change of Responsible Entity – Resolution 3

Wellington Capital Limited holds an Australian Financial Services Licence No. 291562 and its authorisations enable it to become the responsible entity of the Fund.

Wellington Capital has an experienced team of professional staff who are responsible for asset management, fund management and compliance.

The responsible entity of the Fund is currently Wellington Investment Management Limited. That entity wants to retire from the role. Wellington Investment Management Limited is currently the responsible entity of five managed investment schemes including the Fund. The board currently intends to retire and seek Unitholder approval to appoint Wellington Capital Limited as responsible entity for three of those funds. It is the intention of Wellington Investment Management Limited to retire as responsible entity of this Fund and another two funds and to cease to be a licensed responsible entity once all relevant steps have been taken to appoint Wellington Capital Limited as responsible entity to three of the current funds and the winding up of the other two has been finalised.

The resources currently accessed by Wellington Investment Management Limited to operate the Fund are provided by Wellington Capital Limited. Wellington Investment Management Limited wants to retire to simplify operating arrangements within the Wellington group.

Wellington Capital Limited has given its consent in writing to become the responsible entity of the Fund and has indicated its willingness to enter a deed to be bound by the terms of the Constitution of the Fund in the event Unitholders approve the enabling resolution.

Section 601FL of the Corporations Act provides that if a responsible entity of a registered managed investment scheme wants to retire, it must call a Unitholders' meeting to explain its reasons for wanting to retire and to enable Unitholders to vote on a resolution to choose another company to be the responsible entity. The requirement for Unitholders to appoint a new responsible entity is also consistent with the Fund's Constitution.

What happens if this resolution is not approved

In the event Unitholders do not vote in favour of the appointment of Wellington Capital Limited as responsible entity of the Fund, Wellington Investment Management Limited will remain responsible entity of the Fund.

This resolution must be passed by an ordinary resolution of the Fund's Unitholders (i.e. passed by at least 50% of the votes cast by Unitholders of the Fund who are entitled to vote, in person or via proxy, at the meeting).

Both Jenny Hutson and Robert Pitt, current directors of Wellington Investment Management Limited, the current responsible entity are also directors of the proposed new responsible entity, Wellington Capital Limited.

Each of the directors of the current responsible entity have carefully considered all of the current circumstances, and recommend that Unitholders vote in favour of the resolution.

1.3 Choice on each resolution

Unitholders have a choice to vote for, vote against or abstain from voting in relation to each of the 3 resolutions.

The key changes depending on the outcome of the vote are summarised below. This is a summary only and Unitholders should read the entire document before making a decision.

Alternative Outcomes

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes	✓	✓	✓
No			

The outcome for the Fund if all 3 resolutions are passed is:

- ✳ The Fund will be listed on NSX. Redemption rights will be extinguished completely.
- ✳ A 3 cent cash payment will be made to Unitholders, with the first payment in October 2008, the second by 24 December 2008 and quarterly thereafter.
- ✳ Buy-back of up to 37.75 million units at 45 cents by 18 September 2009.
- ✳ Wellington Capital Limited will be the new responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes	✓	✓	
No			x

The outcome for the Fund if resolutions 1 and 2 are passed and resolution 3 is not passed is:

- ✳ The Fund will be listed on NSX. Redemption rights will be extinguished completely.
- ✳ A 3 cent cash payment will be made to Unitholders, with the first payment in October 2008, the second by 24 December 2008 and quarterly thereafter.
- ✳ Buy-back of up to 37.75 million units at 45 cents by 18 September 2009.
- ✳ Wellington Investment Management Limited will remain the responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes	✓		✓
No		✗	

The outcome for the Fund if resolutions 1 and 3 are passed and resolution 2 is not passed is:

- ✶ The Fund will be listed on NSX. Redemption rights will be extinguished completely.
- ✶ A 3 cent cash payment will be made to Unitholders, with the first payment in October 2008, the second by 24 December 2008 and quarterly thereafter.
- ✶ No buy-back will occur.
- ✶ Wellington Capital Limited will be the new responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes		✓	✓
No	✗		

The outcome for the Fund if resolutions 2 and 3 are passed and resolution 1 is not passed is:

- ✶ The Fund will (subject to a different resolution in relation to the Constitution being proposed and passed in general meeting) continue to be obliged to redeem Units in the Fund. This will need to occur by early 2009. It is the view of the board that the net cash available per Unit would be 14 cents.
- ✶ Wellington Capital Limited will be the new responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes	✓		
No		✗	✗

The outcome for the Fund if resolution 1 is passed and resolutions 2 and 3 are not is:

- ✶ The Fund will be listed on NSX. Redemption rights will be extinguished completely.
- ✶ A 3 cent cash payment will be made to Unitholders, with the first payment in October 2008, the second by 24 December 2008 and quarterly thereafter.
- ✶ No buy-back will occur.
- ✶ Wellington Investment Management Limited will remain the responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes			✓
No	x	x	

The outcome for the Fund is resolution 3 is passed and resolutions 1 and 2 are not:

- ✦ The Fund will (subject to a different resolution in relation to the Constitution being proposed and passed in general meeting) continue to be obliged to redeem Units in the Fund. This will need to occur by early 2009. It is the view of the board that the net cash available per Unit would be 14 cents.
- ✦ No buy-back will occur.
- ✦ Wellington Capital Limited will be the new responsible entity.

	Resolution 1 Constitutional Change	Resolution 2 Buy-Back Proposal	Resolution 3 Appointment of Wellington Capital Limited as responsible entity
Yes			
No	x	x	x

The outcome for the Fund if no resolutions are passed is:

- ✦ The Fund will (subject to a different resolution in relation to the Constitution being proposed and passed in general meeting) continue to be obliged to redeem units in the Fund. This will need to occur by early 2009. It is the view of the board that the net cash available per unit would be 14 cents.
- ✦ No buy-back will occur.
- ✦ Wellington Investment Management Limited will remain the responsible entity.

Directors' recommendation

It is the recommendation of each of the directors of Wellington Investment Management Limited that you vote in favour of all of the proposed resolutions.

1.4 Investor Advisory Committee

The establishment of a three person Investor Advisory Committee is being proposed by Wellington.

The purpose of the Investor Advisory Committee is to ensure Investor input into the decision making process of the Fund into the future. The Investor Advisory Committee will meet directly with the responsible entity through formal meetings and other communications.

The Investor Advisory Committee will comprise three democratically elected Unitholders.

Unitholders wishing to nominate themselves or another Unitholders for election to the Investor Advisory Committee, should complete the nomination details at the bottom of the Proxy Form.

Once the nominations are received all Investors will receive information on those nominated individuals and will be able to vote to elect the three members of the Investor Advisory Committee later in 2008.

THE PORTFOLIO

2. THE PORTFOLIO

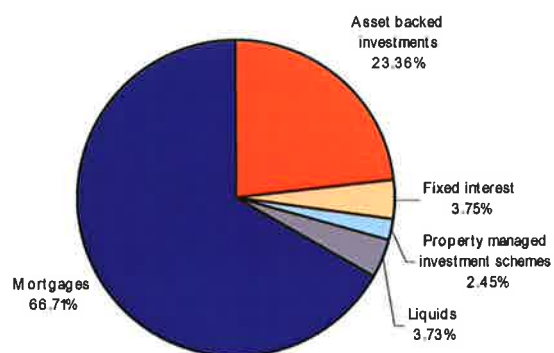
2.1 Introduction

As at 31 May 2008 the Fund's portfolio consisted of the following assets:

	31 Dec 2007 \$000's	31 May 2008 Carrying Value \$000's	31 May 2008 Estimated Realisable Value \$000's
Assets			
Cash and cash equivalents	15,880	15,417	15,417
Mortgage loans	351,674	360,581	275,994
Asset backed investments	307,012	267,545	96,655
Units in managed investment schemes	160,925	93,297	5,599
Fixed interest securities	117,400	16,872	15,523
Other assets	13,754	10,059	4,559
Total assets	966,645	763,771	413,747

The board of the responsible entity retained 333 Capital Pty Ltd's corporate and real estate advisory team to assist in determining the estimated realisable value of the Fund's assets. 333 Capital Pty Ltd provided a value range. The directors of the responsible entity had further discussions with borrowers and potential purchasers of assets and received legal advice on a range of relevant issues in concluding that the estimated realisable value of the total assets as at 31 May 2008 was \$413.7 million on a going concern basis plus any recovery from MFS Limited (see section 6).

Portfolio based on estimated realisable values as at 31 May 2008:



2.2 The Portfolio

Mortgages

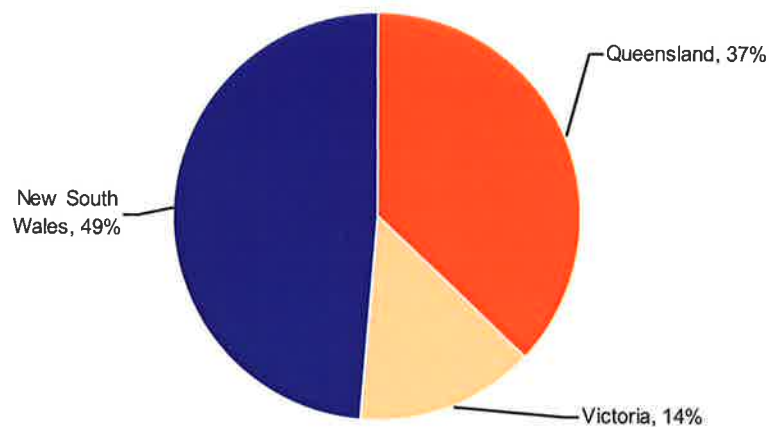
Thirty two mortgages comprise this section of the portfolio of investments of the Fund. Each loan is secured by a registered first ranking mortgage. There are 12 complying loans in the portfolio. These loans are as at 31 May 2008 complying with all relevant elements of the lender/borrower arrangements. The Fund has in relation to two loans totalling \$15.52 million become mortgagee in possession and taken control of the assets provided as security. The balance 18 loans are complying with renegotiated arrangements. The portfolio continues to be managed to ensure the best possible outcome for the Fund. The details of the 32 mortgages are as follows:

Location	Principal and interest as at 31 May 2008	Interest Rate per annum	Original maturity date
Blacktown, NSW	\$2,563,140	11.25%	29 December 2008
Brooklyn West, VIC	\$846,655	11.25%	30 April 2008
Chatswood, NSW	\$4,608,231	11.75%	8 September 2007
Creswick, Vic	\$2,952,680	11.5%	25 September 2008
Creswick, VIC	\$38,336,149	11%	15 August 2008
Dunns Creek, NSW	\$7,147,468	11.5%	4 April 2008
Hastings Point, NSW	\$14,392,282	11%	25 June 2008
Helidon, QLD	\$4,314,083	11%	31 December 2007
Lane Cove, NSW	\$9,479,628	11.75%	8 September 2007
Lithgow, NSW	\$1,421,137	11.25%	22 September 2006
Mackay, QLD	\$1,359,481	11.25%	29 September 2008
Mackay, QLD	\$9,215,142	11%	1 September 2008
Main Beach, QLD	\$14,318,669	10.5%	29 October 2008
Maroochydore, QLD	\$14,109,465	11.5%	30 November 2005
Melbourne, VIC	\$9,012,542	11.25%	19 February 2008
Mission Beach, QLD	\$6,296,911	11.25%	17 January 2009
Nambucca Heads, NSW	\$5,048,399	11.5%	15 March 2008
Narrabeen, NSW	\$2,646,905	11.75%	6 October 2006
Nelsons Bay, NSW	\$2,451,211	11.25%	29 June 2008
Port Macquarie, NSW	\$22,825,382	11.25%	18 July 2007
SE Qld Hinterland, QLD	\$5,702,289	11%	31 December 2007
SE Qld Hinterland, QLD	\$5,633,284	11%	31 December 2007
SE Qld Hinterland, QLD	\$18,527,779	11%	31 December 2007

Location	Principal and interest as at 31 May 2008	Interest Rate per annum	Original maturity date
SE Qld Hinterland, QLD	\$5,833,137	11%	31 December 2007
SE Qld Hinterland, QLD	\$5,702,289	11%	31 December 2007
St Leonards, NSW	\$9,214,843	11.25%	9 January 2009
Surfers Paradise, QLD	\$19,023,879	11.5%	16 December 2008
Sylvania, NSW	\$34,365,429	11%	29 August 2007
Townsville, QLD	\$6,233,770	11.5%	9 November 2008
Tweed Heads, NSW	\$8,570,032	11%	16 August 2009
Wollongong, NSW	\$57,993,841	10.75%	19 March 2007
Yeppoon, QLD	\$9,891,863	11.4%	6 June 2007

Geographical diversification

The geographical diversification of the mortgage component of the Fund is as follows:



Asset backed securities

The asset backed securities that make up this section of the portfolio of the investments in the Fund are summarised as follows:

Name	Estimated realisable value as at 31 May 2008
Sydney based company	\$20,000,000
Sydney based securities	\$14,700,000
Living and Leisure Group	\$493,000
Living and Leisure Australia Trust loan	\$27,000,000
Diversified Trust	\$905
South East Queensland based security	\$19,265,753
Diversified Trust	\$10,084,932
South East Queensland based securities	\$5,110,638
	\$96,655,228

A detailed explanation about what constitutes an Asset Backed Securities is set out in section 3.3.

Managed Investment Schemes

The managed investment scheme investments that make up this section of the portfolio of investments of the Fund are summarised below:

Name	Estimated realisable value as at 31 May 2008
Unlisted property trust	\$3,598,019
Unlisted property trust	\$2,001,049
	\$5,599,068

Fixed Interest Investments

The fixed interest investments that make up this section of the portfolio of the Fund are summarised as follows:

Name	Estimated realisable value as at 31 May 2008
Unlisted fixed interest security	\$9,512,902
ASX listed debt	\$2,360,000
ASX listed fixed security	\$3,650,000
	\$15,522,902

Cash/other

Cash at bank as at 31 May 2008 was \$15,417,514.

2.3 31 May 2008 to 31 July 2008

In the two months from 31 May 2008 to 31 July 2008 the following key changes have occurred:

- ✿ Bank debt has been reduced from \$70 million at 31 May 2008 to \$20 million at 31 July 2008.
- ✿ The remaining \$20 million in debt was refinanced on 1 August 2008 for 90 days. The new financier novated the existing arrangements. This means the new financier has the same security position as the previous financier, being a first ranked fixed and floating charge over all of the assets of the Fund.
- ✿ Assets with a 31 May 2008 estimated value of \$74.2 million have been sold or refinanced realising \$72.9 million which has been utilised to reduce the bank debt and pay bank interest and other operating expenses including the ongoing funding of a number of significant projects. The assets sold or refinanced are listed below:

	Estimated Realisable Value at 31 May 2008	Actual Realisation
Mortgages		
Hastings Point NSW (refinance)	\$14 million	\$12.659 million
Sylvania NSW (partial sale of underlying assets)	\$19.682 million	\$19.818 million
Creswick VIC (partial sale of underlying assets)	\$2.434 million	\$2.434 million
Brooklyn West VIC	\$0.5 million	\$0.549 million
Asset backed securities		
Sydney based company (partial realisation of underlying assets)	\$2 million	\$2 million
Living and Leisure Australia Trust loan (partial realisation)	\$10 million	\$10 million
Diversified trust	\$10.084 million	\$10.2 million
Cash		
Cash	\$15.417 million	\$15.417 million
	\$74.27 million	\$72.9 million

STRUCTURE AND STRATEGY

3. STRUCTURE & STRATEGY

3.1 Structure

The Fund has invested in the following:

- ✿ commercial loans;
- ✿ fixed interest securities including:
 - ✿ structured transactions;
 - ✿ floating rate and income securities;
 - ✿ convertible, reset and hybrid securities; and
 - ✿ other high yield securities;
- ✿ property backed managed investment schemes;
- ✿ asset backed investments; and
- ✿ cash and equivalents.

The following are the investment ranges and benchmark asset allocations for each Authorised Investment.

Range	Benchmark Asset Allocation	Asset Class	Fund's actual allocation as at 31 May 2008
20-75%	45%	Commercial loans	66.71%
0-30%	10%	Fixed interest securities	3.75%
10-40%	25%	Property Backed Managed Investment Schemes	2.45%
5-40%	15%	Asset backed investment	23.36%
5-30%	5%	Cash and equivalents	3.73%
	100%		100%

3.2 The objectives

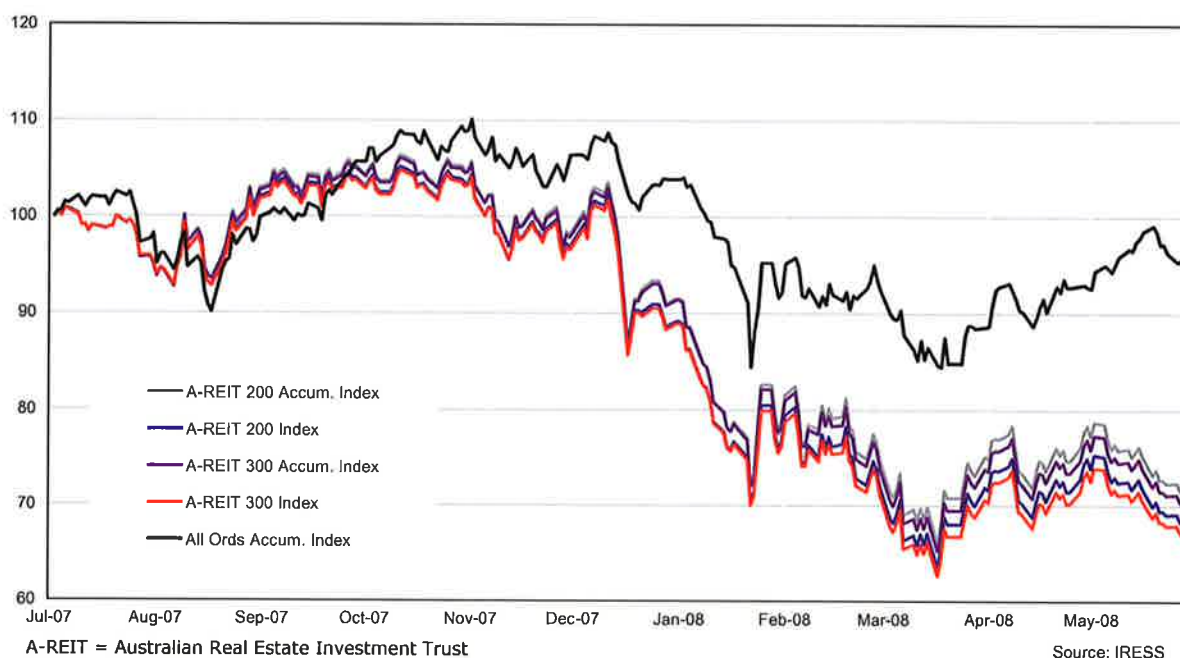
The responsible entity's approach in managing the Fund is to use well defined investment analysis and risk management processes. The Fund is a cooperative model which has allowed Unitholders to invest together and in the past achieve the benefits usually available only to institutional investors. This has allowed the Fund Unitholders to enjoy eight consecutive years of consistent high performance.

The Fund was rated Morningstar mortgage fund of the year in 2005 and Standard and Poors mortgage fund of the year in 2006.

The board intends to maintain the same asset allocation ranges and benchmarks with the Wellington team of experienced and successful professionals responsible for the Fund. Changes to the structure of the Fund are being proposed to enable the Fund to respond to the most difficult market conditions in a decade and adopt a 3 to 5 year investment horizon.

Whilst the Fund is diversified, the decline over the last 12 months in the listed property trust is a relevant measure to demonstrate the market impact. This was the most difficult year in a decade for both property and finance. The Fund asset value, like the rest of the market, has experienced a most challenging operating environment. Unitholders will benefit by waiting for the market itself to recover.

S&P/ASX Property Indices vs All Ordinaries Accumulation Index – Financial year ended 30 June 2008



Fund investments are selected based on their capacity to maintain capital value and on their ability to deliver a stable income stream within the investment and risk management guidelines to create asset diversification and performance. Any divestments are made in a manner which maximises returns for the Fund in the circumstances.

3.3 Investment objectives and approach

How the responsible entity selects the Commercial Loans

Lending guidelines

The responsible entity has well defined lending processes and guidelines for approving and managing all commercial loans. The guidelines address:

- ✿ **Valuation** – An independent valuer provides a valuation of the security property. The valuer is chosen from a panel which has been preselected by the responsible entity.
- ✿ **Security** – Security for the loan is provided by way of a registered first mortgage over the security property, together with additional collateral security required by the responsible entity. In certain circumstances, the responsible entity can accept a second mortgage over a security property if all other applicable lending guidelines are met.
- ✿ **Loan to Valuation Ratio** – The responsible entity restricts the Loan to Valuation Ratio ('LVR') for commercial loans to 66.67%. This LVR is a maximum and may or may not include capitalised interest and fees depending upon the terms and conditions of each individual loan.
- ✿ **Borrower's capacity to repay and service** – The borrower must demonstrate credit worthiness including an appropriate credit history and a level of net assets and income to meet loan commitments. With construction loans, the borrower's capacity to repay is generally determined by the borrower's ability to complete and sell the project. All construction loans involve an independent assessment of the proposed development by a quantity surveyor appointed by the responsible entity.

The responsible entity does not limit the geographic spread, loan type or loan term of loans made by the Fund. All proposals are considered on their merits and under the Fund's lending guidelines.

Valuation practices

The Fund considers valuation reports from independent certified practising valuers when making commercial loans. The responsible entity chooses these valuers from a panel of preferred valuers, in accordance with the responsible entity's valuation standards. The responsible entity may accept an assignment or transfer of a valuation from another party if the valuation has been undertaken in accordance with the responsible entity's valuation standards.

Capitalisation of loan interest

Most loans made by the Fund involve capitalisation of interest, which is where the interest is not paid by the borrower during the period of the loan but is added to the loan over the term of the loan. This is typical for construction loans where interest is capitalised during the construction and then paid when the project is complete. During the loan term, the responsible entity requires that all construction loan drawdowns from the Fund are independently assessed by a quantity surveyor. The responsible entity uses the independent quantity surveyor's assessment to monitor whether sufficient funds remain for meeting future construction costs, capitalised interest and fees for the full term of the loan. This is a very important strategy for managing default risk.

Loan insurance

Insurance through Lloyd's Underwriters has been arranged to cover certain commercial loans. The responsible entity is of the view that not all loan facilities require insurance cover for example,

vacant land loan facilities. Insurance is arranged in cases where the responsible entity considers it appropriate. The maximum loss covered by the Lloyd's Underwriters policy is 75% of the nominated loan amount or \$3 million, whichever is the lesser.

How the responsible entity selects External Fixed Interest Managers and Directly Held Securities

Fixed interest investment guidelines

The responsible entity has well defined processes and guidelines for selecting and managing fixed interest investments, including externally managed mandates, managed investment schemes managed by specialist external managers and directly held fixed interest securities.

The fixed interest investments sector aims to manage portfolio risk by enhancing asset diversification at the total fund level whilst maintaining an appropriate contribution to the return of the Fund.

Use of specialist Fixed Interest Managers can be an effective way to gain exposure to a wide selection of credit securities. This can include investments such as private debt, infrastructure securities plus Australian and International bonds and corporate loans.

Some of the factors considered when the responsible entity assesses the suitability of specialist fixed interest managers include:

- ✿ demonstrated fixed interest management experience;
- ✿ a strong track record in fixed interest portfolio management;
- ✿ a suitably constructed portfolio in terms of security and sector characteristics;
- ✿ robust investment practices and guidelines;
- ✿ compatibility with the Fund's risk and return objectives; and
- ✿ adequate ratings by research houses and consultants.

Fixed interest managers are only selected after the responsible entity conducts an extensive and rigorous due diligence process which typically includes the input from a global investment consultant, who conducts initial research on overseas based managers and makes initial recommendations to the responsible entity on managers which may meet the responsible entity's investment criteria.

After making an investment with a fixed interest responsible entity, the responsible entity continually monitors and reviews that manager to verify whether it remains suitable for ongoing inclusion in the Fund's fixed interest sector.

Directly held fixed interest investments are selected based on both the responsible entity's internal research analysis and their relative yield and capital protection characteristics.

A description of the various Fixed Interest Securities that may be held directly

Structured transactions

Structured transactions cover a range of investment products, such as securitisations (mortgage and asset backed securities).

The responsible entity considers other structured products on a case-by-case basis.

Fixed and Floating Rate Notes

Fixed and floating rate notes are debt securities (typically with a term of up to 5 years) where the interest is paid periodically in line with a benchmark rate. A typical benchmark rate used in Australia is the Bank Bill Swap Rate ('BBSW'). The return is calculated as the base rate plus a premium. The premium that is paid will depend on the risk associated with the credit rating of both the underlying issuer and of the individual issue. Floating rate notes are adjusted periodically in line with the benchmark rate. When the investment matures, the note is redeemed at face value.

Convertible Notes, Income Securities and other Hybrid Securities

Companies use these types of securities to raise money. Hybrid securities have characteristics of both debt and equity. Hybrid securities usually pay regular income based on a fixed or floating rate of return until a specified date. Different hybrid securities have different terms and conditions. The price of the hybrid security either moves in line with the value of the underlying share or stays fixed and then converts at the original purchase price (or the face value).

Other high yield securities

The Fund may invest in other high yield securities, such as infrastructure assets, enhanced yield funds, unsecured notes, debentures and agribusiness schemes.

How the Managed Investment Schemes that are Property Backed are selected

The responsible entity has well defined processes and guidelines for selecting and managing property related managed investment schemes and directly held securities.

In assessing managed investment schemes and securities within the property sector, the responsible entity looks for managers who are investment professionals with:

- ✿ demonstrated property management experience;
- ✿ a strong track record in property management;
- ✿ a suitably diversified portfolio in terms of individual asset exposures and geographical spread of assets;
- ✿ robust investment processes and guidelines; and
- ✿ adequate ratings by research houses and consultants.

The responsible entity requires managers to have a structured and transparent approach to asset selection and management. Managed investment scheme investments may be listed or unlisted.

How the Asset Backed Investments are selected

The philosophy underlying the responsible entity's approach to investing in asset-backed investments is to provide asset class diversification at the total investment portfolio level. The Fund principally invests in two forms of asset-backed investments:

- ✿ secured debt facilities; and
- ✿ direct equity investments for capital growth.

The responsible entity seeks investment opportunities in this asset class that are closely related to those in which it has direct investment expertise and which it has become aware of because of its existing investment activity in a particular asset class. In other words, the responsible entity's exposure to asset-backed investments is generally limited to investments that are secured debt facilities of a commercial nature.

Because of their close approximation in character to the underlying assets of the commercial loan portfolio, the responsible entity is able to apply an already existing analytical decision-making framework to the analysis of these asset-backed investment opportunities.

When we assess secured debt facilities, we use the following criteria including:

- ✱ **Acceptable security** – The facility may be secured by a deed, charge, personal guarantee, bill of sale or other legal document requested to secure the investment i.e. the responsible entity seeks ‘priority of payment’;
- ✱ **Loan to value ratio** – The LVR may be as high as 100%;
- ✱ **Borrower’s capacity to service and repay** – The responsible entity considers factors such as the borrower’s credit history with the responsible entity or with other lenders and the purpose of the loan i.e. the responsible entity seeks ‘certainty of income’ and the ‘preservation of real value of capital’;
- ✱ **Pricing** – The return of the investment must be relative to the risk associated with the investment; and
- ✱ **Valuation** – With most transactions, the responsible entity requires that the security be valued. The valuation will either be as required by the responsible entity in accordance with the responsible entity’s valuation standards or obtained under an assignment or transfer of a valuation from another party.

Assessing value

Asset backed investments are assets for which it may be difficult or impractical to obtain a traditional independent valuation of the underlying security. In these circumstances, the responsible entity will itself assess the market value of the asset. The responsible entity does so using such methods that may include the following:

- ✱ reviewing the last accounts of the borrowing entity or investment to assess cash flows and capital risk;
- ✱ assessing the assets and liabilities of any guarantors to assess their credit worthiness; and
- ✱ developing internal valuations of underlying securities based on recent contracts of sale.

Why the Fund holds Cash

The Fund holds cash and equivalents so it can meet short term cash commitments, not for investment or other purposes.

Gearing of the Fund

A definition of gearing

Gearing is borrowing money to increase the amount available for investment. All obligations of geared borrowing are met by the Fund. Gearing increases the gains or losses from investments compared to the returns on a corresponding ungeared investment. The gearing level in a fund is measured as a ratio of total debt to total assets. For example, if the debt is \$20 and assets are worth \$100, the gearing ratio is 20%.

The Fund may have a gearing level of up to 20%.

The responsible entity has in place a loan facility agreement for \$20 million repayable by the end of October 2008.

It is not the intention of the responsible entity to borrow for long term investing.

It is the responsible entity's aim to borrow only for short periods and repay the funding as soon as practicable. As other investments mature or are liquidated then the borrowing will be repaid.

3.4 Liquidity

The Fund is admitted to the official list of the National Stock Exchange of Australia ('NSX'). The Fund currently has 10,387 Unitholders. The proposed trading of Units on the NSX will provide Unitholders with the ability to trade their Units on the open market. Liquidity is not guaranteed. The size of a fund and its number of unitholders are influencing factors in enhancing interest in market activity.

3.5 The NSX

The NSX is a fully operational and fully regulated Australian stock exchange with electronic trading and clearing and access to an experienced broker and adviser network.



Through the NSX Listing Rules, the NSX conducts a well regulated, transparent, orderly and highly efficient market.

The proposed trading of Units on the NSX will provide Unitholders with the ability to trade their Units on the open market.

The brokers who currently support the NSX are listed below:

AAA Financial Group	ABN AMRO Morgans
Unit 2, 465 Pultney Street Adelaide, SA Australia 5000 phone: +61 8 8232 3833 or 1800 00 4288 fax: +61 8 8232 3800 email: heath@aaashares.com.au web: http://www.aaashares.com.au	Level 29, 123 Eagle Street Brisbane, QLD Australia 4000 phone: 1800 777 946 (tollfree) fax: +61 7 3831 9946 email: info@abnamromorgans.com.au web: http://www.abnamromorgans.com.au
Bell Potter Securities Limited	Burrell Stockbroking
Level 29, 101 Collins Street Melbourne, VIC Australia 3000 phone: 133 788 (tollfree) fax: +61 3 9256 8787 email: info@bellpotter.com.au web: http://www.bellpotter.com.au	Level 4, 24 Little Edward Street Spring Hill Brisbane, QLD Australia 4000 phone: +61 7 3006 7200 fax: +61 7 3839 6964 email: web: http://www.burrell.com.au
Cameron Stockbrokers	Findlay & Co Stockbrokers
Level 5, Swire House, 0 Spring Street Sydney, NSW Australia 2000 phone: +61 2 8223 5100 fax: +61 2 9232 7272 email: sydney@camstock.com.au web: http://www.camstock.com.au	Level 12, 10 Spring Street Sydney, NSW Australia 2000 phone: +61 2 9259 8000 fax: +61 2 9247 9342 email: shares@findlay.com.au web: http://www.findlay.com.au

Freeman Fox Securities Level 11, Waterfront Place, 1 Eagle Street Brisbane, QLD Australia 4000 phone: 1800 000 369 fax: +61 7 3031 9911 email: ffsecurities@freemanfox.com.au web: http://www.freemanfox.com	Macquarie Equities Limited Level 19, 20 Bond Street Sydney, NSW Australia 2000 phone: +61 2 8232 3333 or 1800 501 562 fax: +61 2 8232 3350 email: web: http://www.macquarie.com.au
Martin Place Securities Pty Ltd Level 3, 14 Martin Place Sydney, NSW Australia 2000 phone: +61 2 9222 9111 fax: +61 2 9221 9680 email: info@mpsecurities.com.au web: http://www.martinplacesecurities.com.au/	Pritchard and Partners Pty Ltd 10 Murray Street, Hamilton, NSW Australia 2303 phone: +61 2 4920 2877 or 1800 134 234 (Toll Free) fax: +61 2 4920 2878 email: broking@reespritchard.com.au web: http://www.pritchards.com.au
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RISKS

4. RISKS

4.1 Introduction

This section identifies the areas that the responsible entity considers to be significant risks associated with an investment in the Fund.

As with any investment, an investment in the Fund involves an element of risk. The Fund is subject to risk factors, both specific to the business activities and objectives, and risks of a general nature.

When a Unitholder invests money in the Fund, they are investing in one or more asset classes. At any time, a number of events may influence the value or performance of these asset classes.

The responsible entity applies carefully considered investment guidelines to reduce the risks associated with the Authorised Investments. But before deciding to invest in the Fund, potential Unitholders should consider whether investing in the Fund is suitable in light of the relevant risks, both general and specific, and having regard to their own investment objectives and financial circumstances.

It is not possible to identify every risk associated with investing in the Fund. However, the following summary of risks is a guide to the material risks associated with the Fund or its assets. These factors and others not specifically referred to may materially affect the profitability of the Fund and the value of the Units. Similarly, actual events and results could differ significantly from those anticipated in this Explanatory Memorandum.

4.2 General Economic Conditions

Investment returns are influenced by the performance of the economy as a whole. The Fund's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates, debt and bond market movements, market movement of similar trusts on other exchanges. Domestic and international economic political activity or market sentiment and government fiscal, monetary and regulatory policies.

No guarantee can be made that the Fund's financial performance will not be adversely affected by any such market fluctuations or factors. Neither the responsible entity, the Custodian, any person associated with the application for listing on NSX, or NSX can guarantee the future performance of the Fund or the trading price of Units in the Fund.

4.3 Ability To Trade

The listing of the Units in the Fund will allow existing Unitholders an ability to exit their Unitholding by selling their Units on NSX. There is no guarantee, however, that Unitholders will receive their desired price for their Units.

Once the Units are quoted on the NSX there will be an unrestricted public market for the Units. The Unit price may rise or fall and Units may trade at prices below or above their subscription price. In particular, it is likely that given recent events, Unitholders will not realise their initial investment in the Fund.

The trading of trust units on stock exchanges are influenced by a number of factors many of which are unrelated to the market value of the underlying assets of the relevant trust.

Even after listing and quotation occurs, it is possible that an active market for trading of the Units will not immediately develop.

4.4 No Cash Payments

While in the past Unitholders in the Fund have invested on the basis that cash payments will be made to Unitholders at various rates, in the current circumstances the responsible entity anticipates being in a position to pay 3 cents per Unit by way of a cash payment by 24 December 2008.

4.5 Net Tangible Asset Value

Although approximately 755 million units are on issue in the Fund, for which listing has been sought, there is an expectation that the underlying value of the assets held by the Fund is 45 cents per unit (plus any recovery from MFS) assuming the Fund remains a going concern. In the Fund's interim report for the half year ended 31 December 2007, the auditors indicated material uncertainty in relation to the recoverability of the Fund's credit and equity exposure to MFS related entities. Additionally prevailing market conditions may mean that it is not possible to realise assets at the estimated values. The underlying asset value would be less than 45 cents per Unit in these circumstances.

4.6 No Redemptions

Recent events faced by MFS Limited, which is currently suspended from ASX, resulted in a significant increase in the number of Unitholders in the Fund seeking to redeem their funds.

While the Constitution of the Fund currently technically allows for redemptions, the responsible entity has suspended payment on all and any valid withdrawal requests in regard to Units in the Fund for a 360 day period as permitted under the Constitution and is seeking to amend the Constitution to remove Unitholders rights of redemptions as it will be listed on NSX.

4.7 Gearing

The responsible entity, in its capacity as responsible entity of the Fund, has the capacity to borrow money using the assets of the Fund as security. In the event of default of obligations under the facility, financiers have priority over Fund Unitholders for the amount owing to the facility provider. The balance of the Fund's facility being \$20 million was refinanced for 90 days on 1 August 2008. Gearing increases the potential gains and losses from investments compared to the returns on a corresponding ungeared investment.

4.8 Debt Levels

In the event the responsible entity is unable to address the imperatives around its borrowing arrangements, there is a risk that the Fund will not be able to continue to operate as a going concern.

4.9 Responsible Entity and Management

The continued operation of the Fund will depend on the skills and expertise of the management of the responsible entity in addressing the significant issues faced by the Fund in the current environment, as well as identifying, implementing and managing the investments of the Fund.

4.10 Liquidity of underlying assets of the Fund

Liquidity refers to the level of ease with which an asset can be bought and sold in the market place. If it is easy to sell a particular product, then the market is 'liquid', and if it is hard to sell it is 'illiquid'. The underlying security of the Fund's loans is predominantly mortgages secured over assets. Because of this, there is a risk that delays in realising these assets when required will and may continue to significantly impact on the Fund's ability to operate.

The Constitution currently allows for redemptions of Units. In recent months an abnormally high number of Unitholders applied to withdraw their money from the Fund. The Fund did not have enough liquid resources to meet all requests at that time and accordingly distribution payments have been ceased indefinitely and redemptions have also been suspended. An amendment to the Constitution is currently being sought to remove Unitholders rights of redemption as it will be listed on NSX.

4.11 Income

A decline in interest rates may reduce the income that the Fund is able to earn on its investments.

4.12 Asset Sectors

Different asset sectors perform differently over time. Investments that have provided more stable returns are considered less risky – but they may not provide sufficient long-term returns for Unitholders to achieve their long-term goals. High exposure to one particular asset class may have a material financial impact on the Fund.

4.13 Historical Arrangements with MFS

Investigations undertaken by the responsible entity have indicated that arrangements have been entered into by the Fund with MFS or related parties which may result in the Fund not having expected priority on loans made by it. Funds due to the Fund under the MFS Support Facility are also at risk. The Fund's past involvement with MFS may continue to have a negative impact on market perception and may limit its ability to recover from recent events.

4.14 Default and credit

Commercial loans and asset backed investments are at risk of default, which may happen when the borrower or counterparty fails to pay the interest, principal or meet other obligations when due. Generally, loans for development or construction carry a greater risk because of pressures like timing and completion of the development or construction program. A large proportion of the assets of the Fund are dependent on the completion of development and construction programs.

4.15 Subsequent Mortgage Lending

In some loan transactions a related party of the responsible entity may have lent additional funds to the borrower and hold a second mortgage over security property.

In some cases the Fund may not have had legal priority and accordingly the Fund may not ultimately recover all funds advanced.

4.16 Legal Risks

Adverse consequences for the Fund can occur because of amendments to statutes and regulations affecting them. Taxation analysis is based on current tax law and its interpretation. The law may be changed during the term of the Fund or new decisions or determinations may alter the way the law is generally interpreted.

4.17 Litigation

On 24 June 2008, the responsible entity instigated legal proceedings against MFS and its associates for the repayment of \$147.5 million. In the event further litigation is commenced, the Fund would be required to take steps to protect its position in regard to matters the subject of litigation. There is a likelihood that significant costs may be incurred in regard to any litigation. All costs of litigation are costs to be borne by the Fund.

The extent or likelihood of any future claims cannot be ascertained at this time, but costly litigation or disputes may adversely affect the profitability of the Fund, the value of its investments, or the price of Units in the Fund.

4.18 Insurance Risk

While the responsible entity has arranged insurance for the normal risks associated with ownership of the assets, there is no certainty that such insurance will continue to be available or that premiums will not rise and this may affect any forecast income from the assets. In the event of re-insurance there is no certainty that the responsible entity will be able to obtain adequate insurance at an appropriate price.

4.19 Taxation

A change to the current taxation regime in Australia or overseas may affect the Fund and its Unitholders. Personal tax liabilities are the responsibility of each individual Unitholder. The responsible entity is not responsible either for taxation or penalties incurred by Unitholders. For further information on taxation implications see Section 9.

4.20 Competition

The Fund operates in the financial services industry which is intensely competitive. The responsible entity may face challenges in competing successfully against its current or future competitors on a number of factors including price, reputation, innovation and quality of service. Some of the responsible entity's competitors have advantages over the responsible entity in economics of scale, more capital, a greater range of products and services and larger investor base.

4.21 Employee Misconduct

The responsible entity is open to the risk that employee misconduct may occur. Whilst the responsible entity believes that it has proper processes in place for preventing employee misconduct, it could still occur through the misuse or disclosure of confidential information or a blatant ignorance of those processes and practise resulting in regulatory sanctions, serious reputational or financial distress to the responsible entity and the Fund.

4.22 Operational risks

Whilst the responsible entity believes it has adequate internal processes, people and systems in place to protect its business operations, the responsible entity may be exposed to process error, fraud or system failure in the way of security or physical protection of systems. Such exposure may have an affect on the Fund's financial performance as well as its reputation.

4.23 Adverse publicity or loss of reputation

The responsible entity's business relies to a large extent on the relationships with its Unitholders and its reputation for integrity and the provision of professional service. It may be damaging to the responsible entity and the Fund if a Unitholder is not satisfied with the services provided by the responsible entity or the responsible entity itself becomes involved in litigation in relation to a transaction in which it has been involved. As well as a loss of reputation and goodwill, the responsible entity may also incur significant legal costs in defending its position in such cases.

DIRECTORS AND MANAGEMENT

5. DIRECTORS AND MANAGEMENT

5.1 The Responsible Entity

Wellington Investment Management Limited

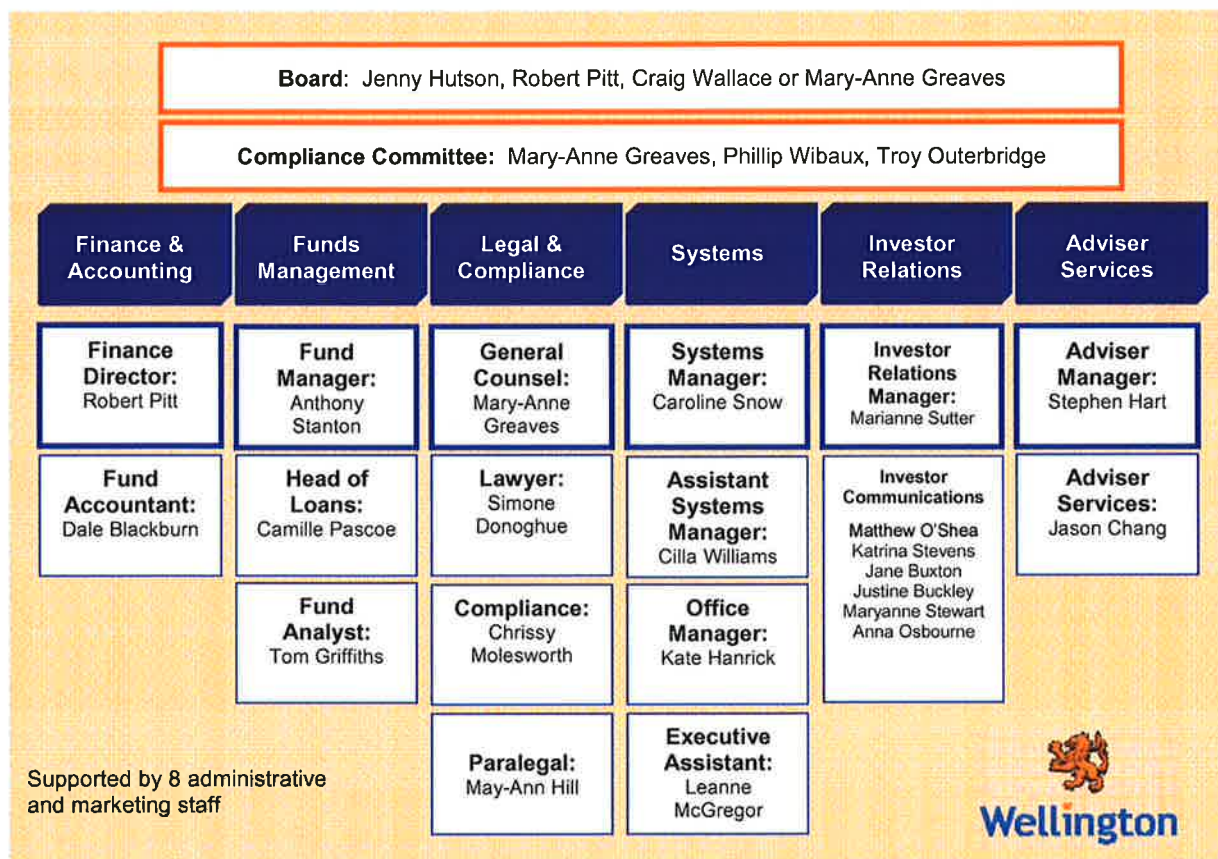
Wellington Investment Management Limited, a wholly owned subsidiary of Wellington Capital Limited, is the current responsible entity of the Fund. It holds Australian Financial Services Licence No. 246553 issued by ASIC which permits it to be a responsible entity and manage the nature of the Fund. It is proposed that Wellington Capital Limited become the new responsible entity of the Fund.

Wellington Capital Limited holds Australian Financial Services Licence No. 291562 and its authorisations enable it to become the responsible entity of the Fund.

Wellington Capital has an experienced team of professional staff who are responsible for asset management, fund management and compliance. This team is currently working for Wellington Investment Management Limited by arrangement with Wellington Capital Limited. They will be the team responsible for the Fund whether Wellington Investment Management Limited remains the responsible entity or if Wellington Capital Limited becomes the new responsible entity.

Wellington Capital's directors and senior management team have a wide variety of skills and experience in areas critical to the successful acquisition, management and sale of the assets of the Fund including property acquisition, valuation, financial analysis, funds and asset management, accounting and management. These skills and experience will assist in maximising performance.

5.2 Organisational Structure



5.3 Wellington's role

Wellington's role is to be responsible for the efficient management of the Fund. Wellington has a range of duties, responsibilities and powers, which are set out in the Constitution. It must also comply with the various requirements of the Corporations Act. The responsible entity is required to act in the best interests of the Unitholders.

In addition to carrying out the asset management of the Fund and causing the collection of income from the Fund, the responsible entity's role is to supervise, arrange or manage:

- ✿ the purchase of additional assets;
- ✿ the borrowings of the Fund;
- ✿ the maintenance of accounting and taxation records;
- ✿ cash payments;
- ✿ preparation of reports to Unitholders;
- ✿ maintenance of the Unitholders' register;
- ✿ general business affairs of the Fund; and
- ✿ compliance with NSX Listing Rules and the Corporations Act reporting obligations.

The remuneration arrangements of the responsible entity for the performance of its role are as set out in the proposed new Constitution, a summary of which is contained in section 10.1.

Change in the responsible entity

If both Resolutions 1 and 3 are passed and subsequently Unitholders are unsatisfied with Wellington Capital Limited's performance, the Unitholders may remove it as responsible entity by the requisite resolution at a Unitholders' meeting. The responsible entity may also retire providing Unitholders are given an opportunity to appoint a replacement responsible entity. The procedures for calling a meeting and voting are set out in the Constitution and will include the new quorum provision and fee removal provision (see section 1.2).

Responsible entity's Insurance

The current responsible entity Wellington Investment Management Limited and the proposed responsible entity Wellington Capital Limited both have professional indemnity and fraud insurance cover effected with a reputable insurer as required by its Australian Financial Services Licence.

The Board of Directors

The board of Directors sets the strategic direction of the Fund and has ultimate responsibility for the performance of the Fund. The board of the current responsible entity, Wellington Investment Management Limited, currently comprises three Directors – Jenny Hutson, Robert Pitt and Craig Wallace.

The board of the proposed responsible entity, Wellington Capital Limited, currently comprises three Directors – Jenny Hutson, Robert Pitt and Mary-Anne Greaves.

5.4 Directors of Wellington Investment Management Limited

The board is composed of individuals with a diverse range of skills and experience, including merchant banking, accounting, property investment law and finance.

Details of each of the Director's positions and their biographies are provided below.

Jenny Hutson B.Com LLB FAIM FAICD Age 40 Managing Director

Jenny Hutson is the Chairperson of Wellington Investment Management Limited and the Managing Director and Founder of Wellington Capital Limited, a merchant bank specialising in property and finance based projects.

Wellington Capital has been corporate adviser on projects worth in excess of \$1.5 billion in the last 3 years. Jenny has led the establishment and expansion of the group's existing funds management business.

Jenny has taken the lead role in a wide range of large and complex corporate and finance transactions over the last 20 years predominantly in property, finance and funds management. This includes a 10 year association with leading funds manager, Property Funds Australia Limited and as Chairperson of S8 Limited and the S8 Property Trust.

Jenny was previously a partner for 10 years in the corporate division of McCullough Robertson Lawyers, a top 20 Australian law firm with over 400 staff. Jenny specialised in advising fund managers and headed the Corporate Advisory practice. Jenny also co-authored the first edition of the textbook '*A Practical Guide to Managed Investments*' with Professor Paul von Nesson.

Qualifications and Memberships

Chairperson, Wellington Investment Management Limited
Managing Director, Wellington Capital Limited
Bachelor of Commerce and Laws, University of Queensland
Solicitor, Supreme Court of Queensland
Fellow, Australian Institute of Management
Fellow, Australian Institute of Company Directors
Director, Big River Timbers Limited
Director, Royal Children's Hospital Foundation
Member, National Advisory Board, Year of the Surf Lifesaver
Fellow, Emmanuel College, University of Queensland



Robert Pitt CPA FCIS MAICD Age 64 Finance Director

Robert Pitt is a director of Wellington Investment Management Limited and the Finance Director of Wellington Capital. He is a Certified Practising Accountant and a Fellow of the Chartered Institute of Secretaries, and has been extensively involved in the property and financial services industry for the past 25 years.

Robert heads the Wellington Capital finance team and has primary responsibility for the group's \$1 billion in assets under management and its investment portfolio. He is responsible for a broad range of reporting requirements (based on prudential and financial requirements) and provides ongoing analytical support to the business.

Robert has extensive experience in financial management, financial control, balance sheet risk and management. Robert provides financial compliance and strategic business support to the Wellington



Capital group by planning and driving financial strategic growth initiatives, the benefit of which is passed on to Wellington Capital's investors. He has responsibility for overseeing forecasting, statutory reporting requirements, budgeting as well as driving and recommending continuous improvement for financial controls and processes.

He was previously an executive director of the CUA Friendly Society Limited and CUA Health Fund, and has held senior positions with Coca Cola Amatil, Brambles, Pfizer Corporation and Bendigo Bank.

Qualifications and Memberships

Certified Practising Accountant
Fellow of the Chartered Institute of Secretaries
Member, Australian Institute of Company Directors

Craig Wallace B.Com MBA FCPA FAICD – Age 55 Non-executive director

Craig was formerly a director of KPMG Corporate Finance, and is now principal of The Alternative Advisory Firm. He has over 25 years experience in investment banking and corporate advice, dealing with transactions involving property, construction, tourism and accommodation, as well as other industries.

Craig is currently a director of Anthony Morton Group Funds Management Limited. He has joint responsibility for the approval and management of over \$300 million in funds that have been invested in a number of prominent building and construction projects.



Craig's expertise involves corporate restructures, divestments, acquisitions and financing with the objective of improving returns on assets.

He was formerly a director of ASX listed SunnyCove Management Limited. SunnyCove communities are strata titled investments owned by independent landlords seeking rental yield returns and capital gain.

Craig is a director of a number of Australian Financial Services Licensees, and has been responsible manager for others.

Qualifications and Memberships

Bachelor of Commerce
Diploma of Advanced Accounting
Master of Business Administration
Fellow of the Australian Society of Certified Practising Accountants
Fellow, Australian Institute of Company Directors

5.5 The board of Wellington Capital Limited

The board of Wellington Capital Limited comprises Jenny Hutson and Robert Pitt, whose profiles are set out in section 5.4, together with Mary-Anne Greaves whose profile is set out below.

Mary-Anne Greaves LL.B ACIS Age 43 Director

Mary-Anne Greaves is Company Secretary of Wellington Investment Management Limited. She is a Director of Wellington Capital Limited and is responsible for the Wellington Capital group's compliance functions.

Mary-Anne is a lawyer and has a particular focus in the property and finance industries. She has 16 years experience in finance and property in various roles with Bendigo Bank Limited and Northern Building Society Limited. She has been a corporate lawyer for 8 years, specialising in licensing, compliance and capital raising issues for funds management businesses. Mary-Anne also holds a Real Estate Agent's Licence.



Mary-Anne has led numerous due diligence assignments and has a strong interest in the area of corporate governance and compliance. She is a Chartered Secretary and an Associate of Chartered Secretaries Australia.

Mary-Anne ensures compliance with Wellington Capital group's regulatory requirements.

Qualifications and Memberships

Bachelor of Laws, University of New England
Solicitor, Supreme Court of Queensland
Chartered Secretary
Licensed Real Estate Agent – Queensland
Member, Queensland Law Society
Member, Real Estate Institute of Queensland
Associate, Chartered Secretaries and Administrators and Chartered Secretaries Australia

5.6 Management Team

Anthony Stanton – LL.B B.Bus Age 37 General Manager – Funds Management

Anthony is an experienced manager and lawyer. He has deep expertise in leadership, management, accountability and regulatory compliance and wide experience in funds management, capital raising and listing issues.

In his role as General Manager – Funds Management, Anthony is responsible for the operations of the Fund.

Anthony has led teams on major acquisitions, collective agreement negotiations, business process improvement and strategic asset and personnel management projects.

Anthony has 20 years experience in government, the law and the defence service. Anthony spent 15 years in both the Army and Navy, commencing as a private soldier and exiting as a naval lawyer. Anthony also has public sector experience as a marine incident investigator and business manager, and has experience in the private sector as a corporate lawyer. Anthony has most recently managed the Queensland Government's Pilotage and Hydrographic Service, a large self contained business unit with an operating budget of approximately \$43 million and over 100 staff.

Qualifications and Memberships

Bachelor of Laws, Queensland University of Technology
Bachelor of Business, Queensland University of Technology
Solicitor, Supreme Court of Queensland
Member, Queensland Law Society

Stephen Hart – F Fin Adv. Dip. Fin. Serv (Fin Planning) Age 53 National Manager, Adviser Services

As the National Manager, Adviser Services of the Premium Income Fund, Stephen is directly responsible for the Fund with the dealer group network. Stephen has been involved with the Premium Income Fund for the last 7 years.

Stephen has worked within the financial industry for nearly 30 years. His diverse professional experience extends from branch banking, through corporate lending and account management to corporate treasury (with one of Australia's leading industrial companies) and now adviser services.

While based in Sydney for much of his career, Stephen also worked in London and other centres in the UK. He has also enjoyed extended work postings to the Netherlands and United States.

Qualifications and Memberships

Advanced Diploma in Financial Planning
Fellow, Financial Services Institute of Australasia (FINSIA)

Jason Chang – B.Eng Dip. Fin. Serv (Fin Planning) Age 35 Adviser Services Manager

As Adviser Services Manager with the Premium Income Fund, Jason works closely with Stephen Hart in liaising with the dealer group network.

Jason has over 5 years direct experience in the funds management industry. He has had extensive exposure to retail investors and advisers, as well as experience in asset management.

As a qualified engineer, Jason acquired extensive experience in the construction industry, prior to working within the finance industry. He held numerous roles within the construction industry, including with Thiess Contractors.

Qualifications and Memberships

Bachelor of Civil Engineering, Sydney University
Diploma of Financial Planning, IntegraTec

Caroline Snow AIMM Age 29 Systems Manager

Caroline is the Systems Manager for the Premium Income Fund. Caroline is responsible for the management of the internal processes of the Fund and for the day-to-day management of investor communications.

In her role with the Premium Income Fund, Caroline draws on her experience as a commercial analyst, where Caroline has been involved in a wide variety of funds management issues, including the following:

- ❖ commercial documentation in relation to mergers, acquisitions and investments;
- ❖ monitoring and evaluating investor relations activities;
- ❖ undertaking research and analysis concerning investment opportunities; and
- ❖ developing and maintaining relationships with analysts and institutions.

Memberships

Member, Australian Institute of Management
Member, Queensland Environmental Law Society
Associate Member, Queensland Law Society

Camille Pascoe Age 53 Head of Loans

As the Head of Loans for the Premium Income Fund, Camille is responsible for the day-to-day administration of the Fund's loan portfolio. Within her role she works closely with both the finance and legal teams to ensure that the administration of the portfolio is financially, legally and commercially driven.

In performing her duties, Camille draws on her 30 years of experience in the legal sector. Camille has had extensive involvement in capital raising, mergers and acquisitions and Australian Financial Services Licensing, property and finance based organisations.

During her career, Camille has spent a total of 17 years in the employ of one of Queensland's leading commercial law firms and has significant Company Secretary experience.

5.7 Corporate Governance

Wellington has a strong commitment to good corporate governance.

The board's guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly in accordance with the law and in the interests of investors and other stakeholders.

Scope of responsibility

The broad functions of the board include:

- ✿ establishing investment strategies for the Fund; and
- ✿ monitoring the implementation and execution of investment strategies and performance against financial targets.

Power and authority in certain areas is specifically reserved by the board. These areas include:

- ✿ composition of the board including the appointment and removal of directors on the board;
- ✿ overseeing the company's internal control, financial management, risk management and investment selection;
- ✿ appointment and removal of key consultants; and
- ✿ reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and legal and statutory compliance.

Composition of the Board

Currently the board of both Wellington Investment Management Limited and Wellington Capital Limited comprise three directors. It is intended that this composition be maintained.

Charter and policy

The board has adopted a formal corporate governance charter and policy as the responsible entity (which will be reviewed and amended from time to time as the board may consider appropriate) to give formal recognition to the matters outlined above. This charter sets out various other matters that are important for effective corporate governance including the following:

- ✿ a framework for the identification of candidates for appointment to the board and their selection;
- ✿ a framework for individual performance review and evaluation;
- ✿ appropriate training to be made available to directors on an ongoing basis;
- ✿ procedures for meetings of the board and the committees including frequency, agenda and minutes;
- ✿ procedures for directors to seek independent legal advice; and
- ✿ communications with investors.

These initiatives, together with other issues provided for in the responsible entity's charter, are designed to 'institutionalise' good corporate governance and generally, to build a culture of best practice in the responsible entity's own internal practices and in its dealings with others.

Compliance Committee

Both Wellington Investment Management Limited and Wellington Capital Limited have established Compliance Committees. Compliance issues are monitored and managed by the Compliance Committee in accordance with the Compliance Plans for each of the registered schemes in the group. The majority of the Compliance Committee members are persons who are external and unrelated. Their role is to supervise compliance with the Compliance Plans and the Corporations Act.

The Compliance Committee reports to the board and if necessary ASIC, in relation to compliance issues.

The current members of the Compliance Committees are:

- ✿ Mary-Anne Greaves (internal member)
- ✿ Phillip Wibaux (external member)
- ✿ Troy Outerbridge (external member)

The functions of the Compliance Committee are governed by the Fund's Compliance Plan and include:

- ✿ monitoring compliance with the Compliance Plan and reporting its findings to the directors of the responsible entity at such times it considers necessary or desirable or the directors of the responsible entity require;
- ✿ as soon as practicable, reporting to the board of any breach of the Corporations Act involving the Fund or a provision of the Constitution of which it becomes aware or that it suspects;
- ✿ as soon as practicable, reporting to ASIC if the Compliance Committee is of the view that the responsible entity has not taken or does not propose to take appropriate action to deal with any issue so reported;
- ✿ assessing annually (unless otherwise determined by the Compliance Committee) whether the Compliance Plans are adequate;
- ✿ reporting on the adequacy of, and making recommendations to the board of the responsible entity about amendments to the Compliance Plans at such times as it considers necessary or desirable; and
- ✿ doing such other things as the Corporations Act requires.

In carrying out its functions, the Compliance Committee may commission independent legal, accounting or other professional advice or assistance, at the reasonable expense of the Fund.

The duties of the members of the Compliance Committee are, to the extent that the Corporations Act and ASIC policy require, to:

- ✿ act honestly;
- ✿ exercise the degree of care and diligence that a reasonable person would exercise if they were in the member's position;
- ✿ not make use of information acquired through being a Compliance Committee member to either gain an improper advantage for the member or another person or cause detriment to the Fund;
- ✿ not make improper use of their position as a Compliance Committee member to gain (directly or indirectly) an advantage for themselves or for any other person or cause detriment to the Fund; and
- ✿ do such other things as the Corporations Act requires them to do, and not do such things as it prohibits them from doing.

Audit and risk management committee

Both Wellington Investment Management Limited and Wellington Capital Limited have established audit and risk management committees to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the responsible entity.

The current members of the audit and risk management committee are:

- ✿ Jenny Hutson
- ✿ Robert Pitt

The committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board of the responsible entity following each meeting. Among the matters for which the committee is responsible are the following:

- ✿ internal control framework including management information systems;
- ✿ corporate risk assessment and compliance with internal controls;
- ✿ internal audit function and management processes supporting external reporting;
- ✿ review of financial statements and other financial information distributed externally;
- ✿ review of the effectiveness of the audit function;
- ✿ review of the performance and independence of the external auditors;
- ✿ review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in, or breakdown of, controls; and
- ✿ assessing the adequacy of external reporting for the needs of Investors.

5.8 Custodian

Perpetual Nominees Limited

Perpetual Nominees Limited was one of the first companies of its type, formed in 1885. The company's formation was part of a ground-breaking movement away from individual trustees to larger trust and estate-administration focused entities.

Today it is one of the most trusted providers of financial products and services in Australia. Perpetual Limited is an ASX Top 200 company with a market capitalisation of approximately \$3.2 billion.

The Custodian's Role

The Custodian holds the title to the assets of the Fund and undertakes other duties as nominee. The Custodian receives all income on behalf of the Fund.

Perpetual's role as Custodian is limited to holding assets of the Premium Income Fund as agent of the responsible entity. Perpetual as Custodian has no supervisory role in relation to the operation of the Premium Income Fund and is not responsible for protecting your interests. Perpetual has no liability or responsibility to you for any act done or omission made in accordance with the terms of the Custody Agreement.

The Custodian's Remuneration

The Custodian is entitled to receive annual fees and is entitled to be reimbursed for legal fees or any other costs and expenses it incurs on behalf of the Fund.

Changing the Custodian

The responsible entity may require the Custodian to retire upon giving 60 days notice.

Other Comments

The Custodian has not been involved in the preparation of this Explanatory Memorandum. Although referred to in the Explanatory Memorandum, the Custodian has not authorised the issue of the Explanatory Memorandum.

Specifically, the Custodian does not guarantee the repayment of subscriptions, the receipt of income or the performance of the Fund.

FINANCIAL INFORMATION

6. FINANCIAL INFORMATION

6.1 Introduction

This section sets out financial information as well as information relating to the Fund's borrowings.

The financial information set out in this section 6 consists of the balance sheets as at 31 May 2008.

The financial information must be read in conjunction with the assumptions and risk factors set out in this Explanatory Memorandum. Whilst the directors believe that the assumptions and risk factors are appropriate and reasonable as at the date of this Explanatory Memorandum, some factors that affect the actual results cannot be foreseen and accurately predicted. Many of these factors are beyond the control of the responsible entity. Consequently, the responsible entity cannot guarantee that the results in the forecast financial information will be achieved. Investors are advised to consider assumptions, and risk factors carefully when reading the financial information.

Note 1 – Assumptions

The balance sheet has been prepared on the basis of the best estimate assumptions set out in this section of the Explanatory Memorandum. The corporate advisory and real estate team from 333 Capital Pty Ltd were engaged to assist determine the likely realisable value of the assets in the portfolio on the assumption that the Fund was a going concern with a 3 to 5 year time horizon and separately in the event that there was a liquidation of the assets of the Fund by 31 March 2009.

333 Capital Pty Ltd provided a value range in relation to the estimated realisable value of the Fund as a going concern. The directors of the responsible entity had further discussions with borrowers, potential purchasers of assets and received legal advice on a range of relevant issues in concluding that the estimated realisable value of the total assets of the Fund as at 31 May 2008 was \$413.7 million.

The estimated value in the event the portfolio was liquidated by 31 March 2009 was determined by 333 Capital Pty Ltd. The board have adopted 333 Capital Pty Ltd's estimate.

333 Capital Pty Ltd have been retained by the responsible entity to assist determining the strategy for each asset, and to take assets to the market where appropriate. 333 Capital Pty Ltd separately provides corporate advice to MFS. 333 Capital Pty Ltd charges fees based on agreed hourly rates. All fees to date have been paid by the responsible entity of the Fund or by MFS under the previously existing service agreement with the responsible entity.

The 333 Capital Pty Ltd team retained by the responsible entity is different to the team retained by MFS.

All figures are shown net of the GST effect. The responsible entity considers the assumptions to be reasonable given the current state of knowledge regarding each assumption as at the date of this Explanatory Memorandum.

The following general assumptions have been made:

- ✿ nothing will occur that will have a materially detrimental impact on the economic climate in Australia;
- ✿ the Fund's operations will not be adversely affected by any changes to the regulations governing the funds management industry; and

- there will be no material change in Australian income tax legislation or other legislation that may affect the Fund.

	31 Dec 2007 \$000's	31 May 2008 Carrying Value \$000's	31 May 2008 Estimated Realisable Value \$000's	Estimated realisable value if assets liquidated by 31 March 2009 \$000's
Assets				
Cash and cash equivalents	15,880	15,417	15,417	15,417
Mortgage loans	351,674	360,581	275,994	157,451
Asset backed investments	307,012	267,545	96,655	34,316
Units in managed investment schemes	160,925	93,297	5,599	1,401
Fixed interest securities	117,400	16,872	15,523	4,101
Other assets	13,754	10,059	4,559	145
Total assets	966,645	763,771	413,747	212,831
Liabilities				
Bank loan	200,000	70,000	70,000	70,000
Other liabilities	6,496	2,576	2,576	2,596
Total liabilities	206,496	72,576	72,576	72,792
Costs of realisation	-	-	-	(31,821)
Net Assets	760,149	691,195	341,171	108,435
Unitholders equity				
Unitholders' funds	771,040	755,147	755,147	755,147
Profit/(loss) for the period	(10,891)	(63,952)	(413,976)	(646,712)
	760,149	691,195	341,171	108,435
Net Asset Backing per Unit	\$0.99	\$0.92	\$0.45	\$0.14

Net asset backing per Unit is net assets (excluding other liabilities) divided by the total number of Units on issue or assumed to be on issue.

NOTES TO THE BALANCE SHEET

Statement of Significant Accounting Policies

The balance sheet as at 31 December 2008 has been prepared in accordance with AAS and other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act and the terms of the Constitution.

The balance sheets has been prepared on an accruals basis and is based on historical costs and does not take into consideration changing money values. Cost is based on the fair values of the consideration given in exchange for assets. The following is a summary of the material accounting policies adopted by the Fund in the preparation of the balance sheets.

Income Tax

No liability has been raised for income tax as it is unlikely that any taxable income will be retained by the Fund and its controlled entities in 2008.

Investment

Investments in property and mortgages comprise primarily of land, buildings and improvements to land and buildings. Investment property is measured at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. All investments have been assessed and are recorded at cost or the directors assessment of market value on a going concern basis.

The cost includes all costs of acquisition such as stamp duty, the responsible entity's acquisition fee, legal fees, etc.

Interest Bearing Liabilities

Interest bearing liabilities are initially measured at cost. Subsequent to initial recognition, interest bearing liabilities are measured using the effective interest method.

Other Liabilities

Other liabilities represent Unitholders' funds contributed to the Fund. AAS requires that Unitholders' funds contributed to the Fund be recognised as non-current other liabilities.

Cash Payments to Unitholders

The amounts paid to Unitholders for accounting purposes are treated as a financing cost expense. For taxation purposes, these payments continue to represent distributions under the Income Tax Assessment Act.

Unitholder entitlements have been recognised on an accrual basis.

Capitalisation of Borrowing Costs

The Fund has adopted AASB 139 Financial Instruments: Recognition and Measurement, and recognises financing costs incurred in the acquisition of interest bearing liabilities as a reduction in the interest bearing liabilities using effective interest method. Financing costs are expensed over the period of the loan.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the tax authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Impairment of Assets

The Fund reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. The assets' carrying value has been adjusted in the balance sheet for the excess over its recoverable amount.

Asset realisations between 31 May 2008 to 31 July 2008

In the period between 31 May 2008 and 31 July 2008, \$74.2 million in estimated realisable value in assets was realised. The total proceeds received were \$72.9 million.

6.2 Borrowings

Borrowing arrangements are an important and integral part of the Fund.

Financiers' Security

The financiers' security is limited to the assets and income of the Fund. In the event of a default, **the financiers are not entitled to make a claim against an Unitholder's own assets, only those of the Fund.**

Existing Finance Facility

The responsible entity was in default of the finance facility it had with its senior financier. As a result, the loan became repayable on demand. Negotiations with the senior financier resulted in an agreement with the senior financier to suspend its rights to take action as a result of the breach of the financial ratio covenant.

The responsible entity negotiated an extension of the agreement to 31 July 2008 ('Standstill Agreement'), subject to meeting the requirements of that agreement.

Under the terms of the standstill agreement, the responsible entity could not deal with the assets of the Fund, including for the purposes of making payments to Unitholders or paying expenses on behalf of the Fund, without the approval of the senior financier. As a condition of the standstill agreement, the senior financier required the responsible entity to instigate the orderly realisation of sufficient assets to repay the loan.

To manage this situation, the responsible entity commenced implementation of a considered plan to repay the senior financier as soon as practicable and maximise the recovery of all Fund assets.

The balance outstanding under the finance facility on 31 May 2008 was \$70 million. This was reduced to \$20 million by 31 July 2008. The remaining \$20 million has been refinanced for 90 days.

6.3 Support Facility

The MFS Support Facility is a contractual arrangement between the responsible entity and MFS Limited (now known as Octaviar Limited) pursuant to which MFS Limited agreed to provide callable funds to the responsible entity in order to allow the responsible entity to:

- ✿ meet any shortfall in the target distributions of the Fund; and
- ✿ meet any expenses.

The arrangement with MFS Limited was entered into to ensure there was additional backup funding which was to be provided by the listed entity. The MFS Support Facility is not a loan facility and in the event that it is drawn, is not repayable by the Fund to MFS Limited.

Callable funds are funds payable by MFS Limited to the responsible entity upon the responsible entity's written request pursuant to the terms of the MFS Support Facility.

The MFS Support Facility will remain in force for so long as the responsible entity, or Wellington Capital Limited remains the responsible entity of the Fund. In the event that the responsible entity retires, resigns or is removed as responsible entity of the Fund and is not replaced by a related party, MFS Limited will be entitled by notice in writing to terminate the MFS Support Facility immediately. If MFS Limited validly terminates the MFS Support Facility, MFS Limited's obligations under the MFS Support Facility will cease immediately. However, any money paid by MFS Limited under the MFS Support Facility will remain the property of the Fund and MFS Limited has no claim for the repayment of that money if the MFS Support Facility is called upon.

On 26 February 2008, the responsible entity provided MFS Limited (now known as Octaviar Limited) with an option notice to notify MFS Limited that it was calling on the full value of the Support Facility. The MFS Support Facility has a callable value of \$50 million. The Fund has not yet received this payment and the Fund continues to be a major creditor of MFS Limited.

On 28 April 2008, MFS Limited released its December 2007 financial accounts to the Australian Stock Exchange (ASX). In the Directors' report to the accounts it was noted that MFS Limited is liable to the full \$50 million pursuant to the MFS Support Facility. It was further noted that the financial support to the Fund by MFS is currently the subject of discussions and forms part of wider negotiations with the large unsecured creditors of MFS. An offer has been made to settle the claim (see section 6.5) and the board remains in discussions with MFS.

6.4 Cash payments

The responsible entity intends to make cash payments to Unitholders totalling 3 cents per Unit with the first payment to be made in October 2008, the second in December 2008 and thereafter quarterly.

Due to the significant impairment recognised at 31 May 2008 it is anticipated that the cash distribution will be a capital repayment and tax deferred. See section 9 in relation to taxation issues.

6.5 Offer from MFS

MFS has made an offer to each of its five creditors. The board of Wellington Investment Management Limited has received an offer from MFS in similar terms to the other creditors and is currently considering the proposal. The board remains in discussions with MFS and its advisers in relation to an outcome.

The offer is for 22.5 cents per \$1.00 outstanding or a secured debt position with MFS, with the debt to be repaid in 3 years from the proceeds of the sale of MFS's 33.3% ownership in the Stella travel business. The value of the debt alternative is almost entirely dependent on the value of the Stella travel business in 3 years and is therefore difficult to determine.

MFS' offer to the Premium Income Fund is also dependent upon all other creditors of MFS agreeing to compromise what is currently due to them. If for example, only 4 of the 5 creditors owed money by MFS reached agreement the offer to the Premium Income Fund could not proceed.

MFS has clearly indicated that if agreement is not reached, MFS will be wound up. This alternative is not economically desirable from the Premium Income Fund's perspective as on a winding up it is estimated by MFS that the return to the Premium Income Fund would be 11.8 cents per \$1.00 outstanding. The timing of the payments would also be very uncertain.

Wellington Investment Management joined all of the other creditors in the Supreme Court of Queensland on Thursday 24 July 2008 opposing the application to wind up MFS. The application for winding up of MFS has now been adjourned to 9 and 10 September 2008.

If the cash offer were accepted as proposed, the Fund would receive \$44.4 million and all legal action against MFS in relation to the Support Facility (\$50 million) and the claim commenced on 24 June 2008 (\$147.5 million) would be at an end.

Full documentation in relation to the offer from MFS is now available on Premium Income Fund website www.newpif.com.au.

FEES AND OTHER COSTS

7. FEES AND OTHER COSTS

CONSUMER ADVISORY WARNING

Did you know?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns. For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the Fund or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission ('ASIC') website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

7.1 Fees and other Costs

The following table shows fees and other costs that a Unitholder may be charged under the Constitution in the event that resolution 1 is passed and the proposed Constitution adopted. These fees and costs may be deducted from a Unitholder's money, from the returns on a Unitholder's investment or from the Fund assets as a whole.

Taxes are set out in another part of this document. For information about taxation see Section 9.

All fees are shown inclusive of tax (including GST) and net of any applicable reduced income tax credits.

Type of fee or cost	Amount	How and when paid
Fees when money moves in or out of the Fund		
Establishment fee: The fee to open your investment	Nil	Not applicable
Contribution fee: The fee on each amount contributed to your investment	Nil	Not applicable
Withdrawal fee: The fee on each amount you take out of your investment	Nil	Not applicable
Termination fee: The fee to close your investment	Nil	Not applicable

Type of fee or cost	Amount	How and when paid
Management costs		
The fees and costs for managing your investment	Management fee¹ A management fee of up to 0.7% (inclusive of GST) per annum of the gross value of assets under management of the Fund (or \$7 per \$1,000 of the gross value of assets under management).	Calculated monthly with reference to the value of the Funds under management at the end of the prior month and payable monthly in advance out of Fund assets.
	Other management costs² All costs properly incurred in connection with the administration and management of the Fund by the responsible entity. The Fund's ongoing costs are estimated at an amount equal to be 0.32% (inclusive of GST) of the value of the assets of the Fund (or \$3.20 per \$1,000).	These costs are deducted from Fund assets and either paid when incurred to the relevant person, or reimbursed to the responsible entity on at least a monthly basis.
Service fees		
Investment switching fee: The fee for changing investment options	Nil.	Not applicable.

Notes

1: Management fee - The responsible entity is entitled to be paid a management fee of up to 0.7% per annum (inclusive of GST) of the gross value of assets under management. As at 31 May 2008, the value of assets under management was \$413 million. Based on this amount, an annual management fee of up to \$2.89 million is payable to the responsible entity out of the Fund's assets. No management fee will be charged until after 3 cents in cash has been paid to Unitholders.

2: Other management costs - The Fund's ongoing costs are estimated at an amount equal to be approximately 0.32% (inclusive of GST) of the gross value of the assets of the Fund. As at 31 May 2008, the value of assets of the Fund was \$413 million. Based on this amount, the responsible entity forecasts the total other costs for managing the Fund to be \$1.32 million. Included in this amount are accounting, audit, custodian and compliance committee costs.

7.2 Additional Explanation Of Fees And Costs

The Wholesale Premium Income Fund

From 13 June 2008, the responsible entity of the Wholesale Premium Income Fund ('the Wholesale Fund') has been Wellington Investment Management Limited. Pursuant to the Wholesale Fund's Constitution, as long as the responsible entity of the Wholesale Fund remains the same as the responsible entity of the Premium Income Fund, and the responsible entity properly performs its duties, then all expenses and liabilities of the Wholesale Fund will be paid by the Premium Income Fund. Because the Wholesale Fund acts as a feeder fund to Premium Income Fund, the responsible entity on behalf of Premium Income Fund has agreed (subject to the Corporations Act) to pay the

fees, costs and operating expenses (excluding Borrowings) of Wholesale Premium Income Fund from the assets of Premium Income Fund.

Transaction Costs

The responsible entity may incur transaction costs when managing the investments of the Fund. Transaction costs such as brokerage, settlement costs, clearing costs and government charges may result from changes in the Fund's investment portfolio or when cash flows in or out of the Fund. Transaction costs vary depending on the nature of the Fund's underlying investments. Transaction costs are paid directly from the Fund at the time they are incurred. These are covered as part of management costs.

Abnormal Operating Expenses

Abnormal operating expenses arise due to abnormal events such as disbursements incurred in connection with convening or holding any meeting of Unitholders.

These charges represent a reimbursement to the responsible entity from the Fund in accordance with the Fund's Constitution to cover abnormal operating expenses incurred by the responsible entity in connection with performing our duties and obligations in administering the Fund.

Abnormal operating expenses are not generally incurred during the day to day operation of the Fund and are not necessarily incurred in any given year.

External Manager

The responsible entity has previously and may in the future retain external managers to assist, select and manage certain elements of the portfolio. This will only occur where the criteria in section 3.3 have been satisfied. Fees payable to external managers (if any) will be a Fund expense not expected to exceed 0.2% of the value of assets selected by the relevant manager.

Goods and Services Tax (GST)

Unless otherwise indicated, all fees stated in this section are inclusive of the net effect of GST.

Custodian fees

The Custodian, Perpetual Nominees Limited, is entitled to be paid an annual ongoing administration fee of 0.02% of the funds assets under management payable monthly in arrears. This fee is payable by the Fund.

Fee on removal

If Resolution 3 is passed Wellington Capital Limited will become the responsible entity of the Fund. Subsequently if the responsible entity is removed as the responsible entity of the Fund, then in consideration for work done the responsible entity will be entitled to a fee equal to 2% (plus GST) of the value of the assets in the Fund (except where the responsible entity has breached its statutory duties). For example, if the Fund assets are \$300 million a removal fee of \$6.6 million would be payable out of the Fund assets. If this payment is made it would adversely affect the Fund's net assets. The fee would be paid from available cash or through the liquidation of assets of the Fund.

Waiver of fees and expenses

The responsible entity may, in its discretion, waive fees and expenses that it is entitled to receive, or it may defer payment of those fees and expenses for any time. If payment is deferred, then the fee will accrue until paid.

INVESTOR SERVICES

8. INVESTOR SERVICES

8.1 Who to contact

For further information investors should contact their financial adviser or the Wellington Hotline:

Phone: 1300 854 885 [+617 3231 0000]

Fax: 1300 854 893 [+617 3231 0093]

Email: investorrelations@newpif.com.au

Web: www.newpif.com.au

Mail: GPO Box 694, Brisbane Qld 4001

8.2 What Unitholders receive

Unitholders in the Fund, receive:

- ✿ a **Unitholder Statement** confirming their Unitholding.
- ✿ **Cash Payments** as determined by the directors of the responsible entity, paid by electronic funds transfer into the nominated Australian bank, building society or credit union account.
- ✿ **Investor Updates** advising of issues relating to the Fund.
- ✿ an **annual report** and audited financial report. These reports are sent to Unitholders within 90 days of the end of each financial year. A half-year interim financial report is available on request.
- ✿ an **annual statement of distributions** and taxation details for the completion of tax returns. **Tax returns should not be lodged until this information is received.**
- ✿ Confirmation of any changes made to account details including bank account or address, following notification of such changes.

8.3 Rights as a Unitholder

The rights of Unitholders are set out in the Constitution. Further rights are provided by the Corporations Act. Briefly, a Unitholder's rights include:

- ✿ the right to receive a Unitholder Statement confirming the investment;
- ✿ the right to receive distributions proportionate to the unitholding in the Fund;
- ✿ the right to receive regular reports and accounts;
- ✿ the right to have the responsible entity perform its duties with diligence and vigilance in a proper and efficient manner;
- ✿ the right to request the convening of meetings;
- ✿ the right to vote at meetings;
- ✿ the right to have the responsible entity removed under the terms of the Constitution; and
- ✿ the right to sell or transfer Units.

8.4 Privacy

When a Unitholder applies to invest, the responsible entity collects personal information about that Unitholder. The responsible entity's privacy policy is available on www.newpif.com.au or alternatively you can contact the responsible entity's investor services personnel to request a copy free of charge. This will enable each Unitholder to understand their rights, the responsible entity's obligations and what the responsible entity does with this personal information and any other information it collects about a Unitholder during the course of the Investment.

8.5 Complaints

The Constitution establishes a procedure for the directors of the responsible entity to receive, consider, investigate and respond to complaints by Unitholders dissatisfied with the management or administration of the Fund.

Complaints should be addressed to:

The Complaints Handling Officer
Wellington – Premium Income Fund
GPO Box 694
BRISBANE QLD 4000
Toll Free: 1300 854 885

Both Wellington Investment Management Limited and Wellington Capital Limited are members of the Financial Ombudsman Service, an external complaints resolution service which has been approved by ASIC. Financial Ombudsman Service can be contacted on 1300 780 808.

TAXATION ANALYSIS

9. TAXATION ANALYSIS

This taxation analysis provides a broad summary of the taxation consequences for Australian resident Unitholders who hold Units in the Fund. The taxation implications for non-resident Unitholders are beyond the scope of this analysis.

This information is general in nature because the tax implications for each Unitholder may vary depending on their particular circumstances. Accordingly, it is recommended that each Unitholder seek their own professional advice regarding the taxation implications. This taxation analysis is not, and is not intended to be, taxation advice to any particular Unitholder.

9.1 Fund Taxation

A unit trust entity such as the Fund which has as its primary purpose the derivation of income from various investments, is not subject to income tax on its net income to the extent that Unitholders are presently entitled to that income.

Based on the current tax law, the nature of and the terms of the Constitution, the net income of the Fund will be assessable to Unitholders in proportion to their unitholding in the Fund. This will be the case whether or not all of that net income is actually paid to the Unitholders.

A Unitholder is assessed only on their proportionate share of this net income of the Fund, even if the accounting income is higher than the net income. This excess of accounting income would represent tax deferred amounts.

These tax deferred amounts can be a consequence of the offset against income of tax deductions attributable to building write off allowance, depreciation of the Fund's plant and equipment, and amortisation of borrowing costs, in excess of corresponding accounting expenses.

However, to the extent that amounts are paid to Unitholders in excess of the net income (either as a distribution of tax deferred amounts or as a partial capital repayment of the amounts paid up on Units), adjustments may be required to the cost base of Units.

Where the Fund realises a revenue tax loss in any year of income, this loss may be able to be carried forward and utilised by the Fund to offset future assessable income. The ability to carry forward and utilise a tax loss will be subject to the Fund satisfying specific tax law trust loss rules.

9.2 Capital Gains Tax

Gains by the Fund

Upon the disposal of any property held by the Fund for more than 12 months, the capital gain (without indexation, see below) is reduced by a 50% CGT discount in determining the Fund's net income for income tax purposes.

If the disposal generates a capital loss, the loss is quarantined in the Fund and is only available for offset against any future capital gains made by the Fund.

The distribution of the capital gain to Unitholders has special tax implications. In general, the Unitholder must gross-up the distribution by doubling the discounted capital gain included in any net income of the trust before applying any capital losses.

Unitholders, other than companies, then apply the applicable CGT discount to the grossed-up amount net of capital losses (if any) to determine the Unitholders' net capital gain. For trustees (where the

gain may be further distributed, and accordingly this process repeated) or individuals, the applicable CGT discount is 50%, whilst for superannuation funds it is 33.3%.

While the CGT discount is available to trustees of trusts is 50%, there are complex tax rules governing the flow through of CGT discounts through trusts to beneficiaries. The consequences may vary depending on each trust's specific circumstances. Accordingly, trustees of a trust, should seek separate advice around the flow through to beneficiaries of any capital gain realised.

For Unitholders that are companies, no CGT discount applies so that once the share of the capital gain distributed from the Fund has been doubled, there is no further reduction.

Direct and deemed gains

Upon the actual or deemed disposal by a Unitholder of a Unit in the Fund, CGT may apply.

The initial cost base is no longer increased by the consumer price index ("CPI") in determining the CGT cost base for a later sale or other disposal.

Instead, the current tax legislation provides for reductions in the amount assessable. In the case of individuals and trusts the CGT discount is 50%, and for complying superannuation funds it is 33.3%. The CGT discount will be available where the Unit has been held for more than 12 months and the level of assets held by the Fund for more than 12 months is also sufficient to meet certain tests. No CGT discount is available to companies.

Reduction of cost base of Units

The cost base of Units for the CGT calculations on an actual or deemed disposal will be effectively adjusted (reduced) by the sum of any non-assessable distributions made, which may relate to tax deferred distributions or partial repayments of the Investor's initial capital investment.

Distributions of the non-taxed component of the capital gain made by the Fund on the sale of a Fund asset due to the CGT discount, do not reduce the cost base of the Units.

Goods and Services Tax ('GST')

GST will apply to taxable supplies. This tax applies to certain rents, outgoing contributions and other receipts of the Fund.

Expenditure that the Fund incurs which includes a GST component will generally entitle the Fund to an input tax credit.

GST is not payable on the consideration paid for a Unit in the Trust as it is a 'financial supply' and therefore input taxed.

Tax law

Investors should note that Australian tax laws are complex and are constantly subject to change. The view are forecasts in the Offer Document are based on law current at the date of this Offer Document.

The taxation comments in the section are general in nature by necessity. They do not, for example, apply to non-residents or those who carry on a business of trading in units.

Tax liabilities are the responsibility of each Unitholder and the responsible entity and its Directors are not responsible for taxation or penalties incurred by Investors.

Investors should consult their own taxation advisers on the tax implications of their individual investment in the Fund.

ADDITIONAL INFORMATION

10. ADDITIONAL INFORMATION

10.1 Constitution

The Constitution is the primary document which establishes and regulates the Fund. The responsibilities of the responsible entity of the Fund, together with all duties, obligations and rights pertaining to the Fund are set out in the Constitution of the Fund. The rights and interests of Unitholders, including the right to receive distributions, attend and vote at meetings, register complaints and participate in the winding up of the Fund are also set out in the Constitution of the Fund.

The responsible entity of the Fund is responsible for the management of the assets of the Fund and the funds of the Fund on behalf of Unitholders.

Set out below is a summary of the proposed amended Constitution of the Fund which will be in place if Resolution 1 is passed by Unitholders (see section 1.2 for a comparison of the key features of the current Constitution and the proposed Constitution):

Duties and obligations of the responsible entity

The main duties and obligations of the responsible entity are:

- ✿ act honestly, and in the best interests of Unitholders;
- ✿ treat Unitholders equally and fairly;
- ✿ manage the Fund and Fund assets in accordance with the Constitution;
- ✿ may appoint an agent to do anything the responsible entity may do, including to hold Fund property and to execute documents on its behalf;
- ✿ treat as confidential the contents of all Fund records, accounts and other documents and must take reasonable precautions to prevent the disclosure thereof to any person other than its Unitholders, employees or advisers;
- ✿ ensure that the Fund remains a registered scheme at all times during the period of the Fund; and
- ✿ ensure that all valid notices from and requirements of authorities (government or otherwise) are complied with and that the Fund property are let, invested, managed and otherwise dealt with to the best advantage.

Limitation of Unitholder liability

Under the Constitution, no Unitholder will be under any obligation to personally indemnify the responsible entity in respect of the liability for obligations in connection with the Fund to any extent beyond their unitholding in the Fund.

Quorum

Two Unitholders present constitute a quorum except for a meeting at which any resolution is proposed (whether ordinary or extraordinary) to remove Wellington Capital Limited as Responsible Entity of the Fund.

The quorum for a meeting at which any resolution is proposed (whether ordinary or extraordinary) to remove Wellington Capital Limited as Responsible Entity of the Fund, is a minimum of four persons representing in person, by proxy or attorney at least 51% of Units on issue in the Fund by number.

The quorum for a meeting at which any resolution is proposed to change the clauses of the Constitution which deal with required quorums, require a quorum of at least four persons representing in person, by proxy or attorney at least 51% of Units on issue in the Fund by number.

If at any time the Fund has only one Unitholder the Unitholder or his or her representative or proxy constitutes a quorum.

Voting

Unitholders will receive notification of meetings. The Constitution provides that each Unitholder will have one vote for each Unit held in the Fund. Voting will generally be by a show of hands unless a poll is demanded. Only those Unitholders that are entered on the register of Unitholders shall be entitled to vote at any meeting of Unitholders.

Income of the Fund

Under the Constitution, the responsible entity is charged with the responsibility of collecting all net income of the Fund.

Fees

In consideration for carrying out its obligations as responsible entity of the Fund, the responsible entity will receive a management fee of 0.7% per annum of the funds under management payable monthly in advance with reference to the value of funds under management at the end of the prior month.

No Rights to Withdraw from Fund

Unitholders will not be able to withdraw from the Fund, other than by sale of their units to a third party or through a limited buy-back arrangement when proposed by the responsible entity.

Sale of Units

Unitholders may, in accordance with the Listing Rules and the ASTC Settlement Rules trade units in the Fund on the NSX.

Distribution of Distribution Entitlement

Calculating the entitlement

After each distribution calculation date the responsible entity must calculate for the relevant distribution period each Unitholder's distribution entitlement.

Determining who has the entitlement

At the end of each distribution period each Unitholder at the end of the day on the distribution calculation date is presently entitled to its distribution entitlement.

Payment of entitlement to a person entitled to it

For each distribution period the responsible entity must pay to each distribution recipient its distribution entitlement on or before that date being 10 days after the distribution calculation date.

Calculation of Distribution Entitlement

Calculation of distributable amount

The 'distributable amount' for a distribution period is to be determined in accordance with the following formula:

$$DA = I + C$$

Where:

DA is the amount of distributable amount;

I is the income of the Fund for the distribution period minus any amount of the income that is set aside during the distribution period as reserves or provisions under the Constitution; and

C is any additional amount (including capital, previous reserves or previous provisions) that the responsible entity has determined during the distribution period is to be distributed.

Calculation of distributable entitlement

The distributable entitlement of each distribution recipient is the total of the Unit entitlement in relation to each Unit held by the distribution recipient at the end of the day on the distribution calculation date, as determined in accordance with the distribution calculation formula.

Calculation of Unit entitlement

The Unit entitlement in relation to a Unit is to be determined in accordance with the following formula:

$$UE = \frac{DA}{\Sigma U}$$

Where:

UE is the Unit Entitlement

DA is the Distributable Amount

ΣU is the total number of Units on issue in the Fund.

10.2 Compliance plan

The Compliance Plan sets out the processes the responsible entity applies to ensure that the operations of the Fund are conducted in accordance with the Australian Financial Services Licence, the Constitution, the Corporations Act and other applicable legislation. The Compliance Plan is independently audited.

The Compliance Plan and the documents controlled through it establishes practices that help the responsible entity manage risk management, record keeping, accounting and audit functions, lending policies, complaints handling and other aspects of the operation of the Fund.

Copies of the Compliance Plan have been lodged with ASIC and are available for inspection at the responsible entity's office during business hours and on the Fund's website www.newpif.com.au.

10.3 Custody agreement

The responsible entity and the Custodian have entered into a Custody Agreement under which the Custodian acts as the custodian in respect of the assets of the Fund.

The Custodian is engaged to hold the assets of the Fund. The Custodian has no independent discretion with respect to holding of assets and is subject to performance standards set out in the Custody Agreement. The Custodian will enter into a Custody Agreement on identical terms in the event the resolution approving Wellington Capital Limited as the new responsible entity is passed.

10.4 Registry Services Agreement

The responsible entity will take responsibility for registry services and will subcontract part of those services to Computershare Investor Services.

The fees payable for the provision of registry services is capped at 0.15% of the net asset backing of the Unitholder contributions in the Fund, which is on the same basis as the previous agreement with Perpetual Nominees Limited.

10.5 Disclosure of interests

Directors of the responsible entity

Other than as set out below or elsewhere in the Explanatory Memorandum, no director of the responsible entity has an interest in the promotion of the Fund and no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid to any director or proposed director either to induce to become, or to qualify as, a director, or otherwise for services rendered in connection with the promotion of the Fund.

Custodian and Directors of the Custodian

At the date of this Explanatory Memorandum and throughout the preceding two year period neither the Custodian nor any directors of the Custodian has or had any interest in the promotion of or in the Fund other than the remuneration to which it is entitled as Custodian.

10.6 Responsible Entity Fees

Upon the appointment of the current Directors of the responsible entity, Wellington Capital Limited was paid a one off fee of \$750,000 by MFS.

Under the proposed new Constitution the responsible entity, will be entitled to further fees for the management of the Fund. Such fees which will be included in the new Constitution are set out in section 10.1.

10.7 Continuous disclosure

The Fund is a 'disclosing entity' for the purposes of the Corporations Act. It is subject to regular reporting and disclosure obligations under the Corporations Act and the NSX Listing Rules. These obligations require the responsible entity to notify ASIC and the NSX of information about specified events and matters as they arise for the purposes of the NSX making that information publicly available. Copies of documents lodged with ASIC may be obtained from, or inspected at, an ASIC office.

10.8 Documents available for inspection

Copies of the following documents are available for inspection during normal office hours at the office of the responsible entity:

- ✿ the proposed new Constitution; and
- ✿ a copy of the Constitution identifying all proposed changes.

10.9 Environmental and ethical considerations

Whilst the responsible entity intends to conduct its affairs in an ethical and sound manner, no account has been taken of any labour standards, environmental, social or ethical considerations when making, retaining or realising an investment of the Fund.

10.10 Name Changes

The Fund

Date	Details of Name Change
October 2000	MFS Capital Insured Income Fund changed its name from MFS Master Mortgage Trust
November 2003	MFS Premium Income Fund changed its name from MFS Capital Insured Income Fund
March 2008	Octaviar Premium Income Fund changed its name from MFS Premium Income Fund
June 2008	The Premium Income Fund changed its name from Octaviar Premium Income Fund

The responsible entity

Date	Details of Name Change
September 2004	McLaughlins Financial Services Limited ACN 088 647 796 retired as responsible entity and MFS Investment Management Limited ACN 101 634 146 was appointed responsible entity of the Fund
March 2008	Octaviar Investment Management Limited changed its name from MFS Investment Management Limited
June 2008	Wellington Investment Management Limited changed its name from Octaviar Investment Management Limited

Wellington Investment Management Limited ACN 101 634 146 ('Wellington Investment Management') is the responsible entity of the Fund and holds Australian Financial Services Licence No 246 553.

Wellington Investment Management Limited has no child entities.

10.11 Termination of Services Agreement

Wellington Investment Management Limited and Octaviar Administration Pty Ltd ACN 101 069 390 were parties to a Services Agreement whereby Octaviar Administration Pty Ltd agreed to provide administration services in relation to the conduct of the Funds business which commenced on 5 January 2006.

Previously Octaviar Limited was responsible for all of the expenses of the Premium Income Fund that the responsible entity was unable to recover from the Premium Income Fund itself. An amount of \$3 million was put aside on 5 May 2008 to cover certain Fund costs for the four months to 31 August 2008. These funds have been utilised by Wellington Investment Management Limited as responsible entity to pay for certain relevant costs of operating the Premium Income Fund.

The contractual arrangement between Wellington Investment Management Limited and Octaviar Limited and Octaviar Administration Limited whereby Octaviar provided the staff and infrastructure necessary to operate the Premium Income Fund was terminated on 4 July 2008. Wellington Investment Management Limited determined it was desirable for all staff and infrastructure necessary to operate the Premium Income Fund to be provided directly by the Wellington group.

10.12 Handling Fees

Where a proxy form is stamped with the stamp of an adviser or has previously been noted as an adviser's client, and proxy is valid, the responsible entity may pay a handling fee to the relevant adviser up to a maximum of 0.25% of the value of Units held by that particular unitholder calculated with reference to the current net asset backing of 45 cents per Unit. This will be paid in the event that the proposed resolutions are passed. Payment will occur at the time the December 2008 cash payment is made to Unitholders.

10.13 Legal Proceedings

The responsible entity has commenced proceedings in the Supreme Court of Queensland against MFS Limited and MFS Limited related entities (Octaviar Limited, Octaviar Administration Pty Ltd and OPI Pacific Finance Limited).

The claim has been filed after detailed consideration was given to the issues by the board of Wellington Investment Management Limited in conjunction with Matthew Walton SC, Barrister at Law. \$147.5 million in compensation is being demanded on behalf of Unitholders.

The claim specifically relates to contraventions of section 601FD of the *Corporations Act* by officers of Octaviar Limited, Octaviar Administration Pty Ltd and OPI Pacific Finance Limited in not carrying out their duties honestly and with care and diligence, in relation to:

- ✿ the investment of Fund money in related party investments;
- ✿ participation in loan agreements with related parties; and
- ✿ compliance with the Australian Financial Services Licence, Constitution and Compliance Plan of the Fund,

to ensure that any activities of the Fund were undertaken in the best interests of the members of the Fund.

This claim is in addition to the \$50 million claimed in relation to the Support Facility with MFS Limited, which continues to be vigorously pursued by Wellington Investment Management Limited, as responsible entity for the Fund.

The responsible entity is in the ordinary course of business involved in legal proceedings from time to time. Other than set out above, the responsible entity is not involved in any major litigation issues at this time.

An offer has been made to settle the \$197.5 million sought from MFS (see section 6.5). If the cash offer is accepted as proposed the Fund would receive \$44.4 million and have no further claim against MFS under the Support Facility or in relation to the claim commenced on 24 June 2008.

DIRECTORY

CURRENT RESPONSIBLE ENTITY

Wellington Investment Management Limited
ACN 101 634 146

PROPOSED RESPONSIBLE ENTITY

Wellington Capital Limited
ACN 114 248 458

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DIRECTORS OF WELLINGTON INVESTMENT MANAGEMENT LIMITED

Jenny Hutson
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DIRECTORS OF WELLINGTON CAPITAL LIMITED

Jenny Hutson
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REGISTRY

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Wellington

PREMIUM INCOME FUND

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