

# Premium Income Fund

## Investor Update: 31 August 2009



Issue 2, 2009

Welcome to the Investor Update for the Premium Income Fund. This update outlines key details about the Fund's activities.

It has been a challenging 12 months. The highlight was the repayment of the Fund's debt facilities. The difficulty has been the lack of buyers for the 11 assets which were prepared for sale and then marketed over the last 4 months.

Consequently the Fund has not been able to make any cash payments to Unitholders. My team continues to focus on finding ways to maximise the value of the underlying assets with the aim to realise assets for the benefit of Unitholders.

Kind regards

Jenny Hutson  
Managing Director  
Wellington Capital Limited



Investor Updates are mailed to Unitholders for the periods ending April, August and December, and include a restatement of information released to the market by way of NSX releases made in the period to assist the Fund's many Unitholders who do not have internet or email access.

### Key events – May to August 2009:

- ✿ Sales campaign conducted for 11 of the underlying security assets in the Fund's possession commenced on 4 April 2009.
- ✿ Advanced negotiations with potential joint venture partners to deliver completion of construction projects representing over 30% of the Fund NTA.
- ✿ Joint venture partnership secured for completion of underlying security property at Port Macquarie. Further details in relation to this project are included in this Investor Update.

### Market Commentary

Over the last 12 months the Fund has operated in the two markets hit hardest by the Global Financial Crisis: finance and property.

Second tier financiers have retreated from the market and senior lenders have significantly tightened their credit policies. Lenders have sought to de-risk projects to an extraordinary degree by adopting conservative loan valuation ratios (LVRs)

and interest cover positions. This has hindered many prospective purchasers and has reshaped the investment landscape and commercial lending in particular. On the other hand, for those that can satisfy the banks' risk concerns, funding has been available at very sharp interest rates.

The property market has also experienced a difficult year. The market in general has experienced a cooling in values. However, this natural cooling has been exacerbated by the challenges in the finance sector. Banks have been very sensitive to LVR covenants and have been quick to pressure borrowers on the back of modest revaluations of property. The result has been a large amount of property on the market, under forced sale conditions. Similarly, a large number of corporate insolvencies and general loan defaults have resulted in many mortgagee sales over the period.

Commercial real estate continues its decline from 2008. The federal government's plan to financially assist commercial property developers during the financial crisis was defeated by a vote in parliament's upper house Senate in June 2009.

The Westpac-Melbourne Institute Leading Index showed an annualised growth rate of -3.5% in April 2009, compared with worse figures in March and February 2009.

Average growth in 2009 is anticipated to be 0.2%. The recent surge in both business and consumer confidence places considerable upside risks to these numbers but the new dimension of a Reserve Bank that appears to be signalling plans to raise interest rates must temper the outlook. The resilience of confidence to the prospect of higher rates will be a key determinant of the growth outlook.

This may be an indication that worst of the financial crisis is over, although a return to economic growth is unlikely before 2010.

The state of both of these markets has presented a significant impediment to the Fund achieving its aims within management's target timeframes.

### Annual Financial Report

Included with this Investor Update is a copy of the Annual Financial Report for the Fund as at 30 June 2009.

Unitholders should read the financial reports carefully.

- ✿ During the financial period, a net \$60 million was raised from asset sales or refinances. These funds were used to fully repay external borrowings of \$55 million and maintenance of Fund assets, interest and operating expenses.
- ✿ As a result of the repayment of all borrowings and settlement of outstanding creditor claims, the threat of liquidation of the Fund has been eliminated.
- ✿ The net asset backing of a unit in the Fund as at 30 June 2009 is 39.2 cents per unit.



## Taxation Statements

The Fund did not distribute any income for the financial year ended 30 June 2009. Taxation Statements are included with the mailed copy of this Investor Update.

## Cash Payments

The Board is very conscious of, and concerned about, the economic hardship that the Fund's current position is causing for Unitholders.

Any cash payment to Unitholders is dependent on finalising further asset sales, and as a consequence, the timing of the proposed cash distribution to Unitholders remains uncertain.

The Fund's next priority is to return a 3 cent payment to Unitholders. After that payment is made, the Fund will focus on the rebuilding of unit value. This will be achieved through a combination of realisations and further development of selected existing assets, along with measured new investments aimed at rebalancing the asset class allocations of the Fund.

The Board is committed to making a 3 cent cash payment to investors as soon as the Fund is in a position to do so. It is however unlikely that the Fund will be able to return to a situation where regular distributions are a feature of the Fund.

## Management Fees

No management fees have been paid to or accrued by Wellington Capital Limited as responsible entity of the Premium Income Fund.

An undertaking was provided to the Supreme Court of Queensland and the Australian Securities and Investments Commission in September 2008 that the responsible entity will only charge a management fee of 0.7% per annum on funds under management after Unitholders are in receipt of the cash payments totalling 3 cents per unit.

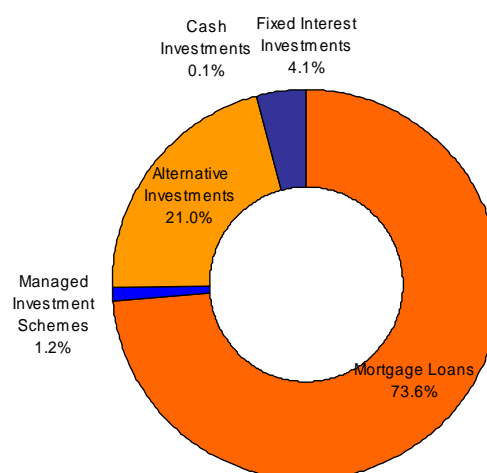
## Buy back

One of the resolutions passed at last year's extraordinary general meeting of Unitholders was a buy back of units. This was presented by the responsible entity as a further exit mechanism for Unitholders who did not wish to stay with the Fund for a longer term recovery.

While management is still of the opinion that the buy back is a valid strategy that will benefit a number of Unitholders, it is a secondary strategy to that of generating a cash payment in the near term.

Overall, the Fund's particular circumstances and the broader economic situation are not conducive to the anticipated buy back at present, or in the immediate future.

## Fund Asset Allocation as at 30 June 2009



While asset allocations generally remain within the ranges anticipated, the rapid realisations necessary to discharge debt during 2008 and 2009 have moved each class away from the forecast target allocation. Wellington is working to rebalance the portfolio in a systematic and progressive manner.

All asset classes continue to perform within the Fund's range of expectations.

## Fund Portfolio

### Mortgages

The Fund remains mortgagee in possession of a number of properties across the Eastern seaboard. The properties range from vacant land to nearly completed multi-storey hotel and residential towers. Strategies are being implemented in order to realise those assets at the maximum possible value, in the context of the changing dynamics within the property and finance markets.

### What is the strategy?

All fund assets have been categorised in relation to their suitability for sale 'as is' or whether significant value uplift can be achieved by further investing in a property and holding it for a longer term.

Within the sale 'as is' category, there are some properties that can be sold at a fair market price, while others must be retained as a land bank pending relevant regional market recovery. As with all property sales, timing is crucial. The majority of future cash payments will be sourced from sale of land assets in this category.

Within the further investment category are assets that have been identified as the foundation upon which the Fund value will be rebuilt. In each instance, they are significant assets that have the potential to earn income in the near future or are already returning an income to the Fund. Some of these assets require further investment in order to reach that income earning state. The strategy is to seek further investment from appropriate joint venture partners selected on a project by project basis.

In relation to joint venture projects already underway or substantially negotiated, the Fund will incur no interest bearing



debt nor invest further Unitholder's money into completion of the project. However, by undertaking the joint venture project, the carrying value of each asset will be substantially improved.

### Joint Venture Case Study - Aston Hill, Port Macquarie

The Fund is mortgagee in possession of the security property located at Port Macquarie, New South Wales.

Aston Hill Apartments comprises 24 luxury 3 bedroom residential apartments spread across a partially completed 4 level building with a secure basement car park. In addition to the 24 apartments, the property also contains 2 separate townhouses which are located at the northern end of the property.

The property is located on a hilltop at the end of Mort Street, overlooking Port Macquarie CBD, Westport and the mouth of the Hastings River. Mort Street is an attractive tree lined street which runs from Hastings River Drive.

The property has been in possession of the Fund for over 12 months and construction has been stalled with the building 95% complete. The Fund has maintained and secured the property while attempting to sell it.

In response to a marketing campaign in April/May 2009 several offers were received for the property. However, each offer represented an undervalue and an alternative strategy was implemented.

A developer known from a previous transaction put forward a proposal to complete the property and assist the Fund to market the units in return for a modest share of profits.

The anticipated end result for the Fund will be a significant outperformance on the best cash offer received. This result will also be obtained without new expenditure from the Fund.

This is a significant result in terms of outcome for investment and also sends a signal to the market that the Fund is not a forced seller. Wellington is committed to reach the best outcome for Unitholders in every instance.

It is anticipated that this construction will be complete in three to four months with funds flowing back to the Fund by early next year.

### Asset realisations

A sales campaign commenced on 4 April 2009 and saw 11 of the security properties in the Fund's possession taken to market by nationally recognised agents Jones Lang LaSalle, Ray White, and Colliers International.

As described in our previous update, the Fund did not intend to sell any property at less than their assessed market value.





As a result of this campaign, the Fund has finalised the sale of a storage facility at Chatswood, New South Wales and entered into contracts to sell a construction site at Mackay, Queensland.

In terms of the overall portfolio, these sales are small. However, they are significant in terms of providing operating capital to meet the Fund's expenses and to maintain the balance of the portfolio. Each property was sold at a price in line with Wellington's expectation and at a fair market price.

### Investor Advisory Committee

Thank you to all Unitholders who returned voting forms for nominees to be appointed to the Investor Advisory Committee.

The top four nominees for the Investor Advisory Committee are:

-  Mr Chris Mangan
-  Ms Brownyn Andrejic;
-  Ms Alana Woodford; and
-  Mr David Hunter.

Mr Mangan, Ms Woodford and Ms Andrejic are the elected nominees for the Fund Investor Advisory Committee.

The appointment term is 2 years. In the event that a Unitholder is unable to continue their participation, Mr Hunter will be invited to join the Investor Advisory Committee.

For ease of contact, a central mailbox has been set up to enable mail to be distributed to committee members. Email correspondence should be addressed to [iac@newpif.com.au](mailto:iac@newpif.com.au). This mailbox will be checked daily and mail forwarded to the relevant committee member.

### What is the role of the Investor Advisory Committee?

Members of the committee are not representatives of the Board of Wellington Capital Limited as responsible entity of the Premium Income Fund, nor part of the management of the Fund, but are independent representatives which form a consultation group.

The purpose of the Investor Advisory Committee is to ensure investor input into the decision making process of the Fund. Members of the committee will have an opportunity to discuss current issues with Wellington and the outcome of each committee meeting will be provided to all Unitholders in the following Investor Update.

The next Investor Update is due to be released at the end of December 2009.



Source: RP Data



## Class Action – Mercedes Holdings Pty Ltd & Ors v KPMG & Ors

Wellington Investment Management Limited as the former responsible entity of the Premium Income Fund was named as a Respondent in the class action filed on behalf of Fund Unitholders. A directions hearing is to be held on 31 August 2009.

Following negotiations, the Applicants' legal representative has agreed these proceedings will be discontinued against Wellington Investment Management Limited with no order as to costs.

Documentation has been mailed to all Unitholders in the Premium Income Fund for the purposes of the class action proceedings currently before the Federal Court of Australia.

A copy of the IMF documentation is available on the Fund's website.

Any settlement of the funded class action will be for the benefit of the class members only and will constitute compensation. There will be no increase in the net asset backing of a unit in the Premium Income Fund.

Unitholders with queries in relation to the IMF documentation should contact IMF directly:

Mr Tim McLernon  
Toll Free 1800 016 464  
Direct: +618 9225 2300  
Email [tmclernon@imf.com.au](mailto:tmclernon@imf.com.au)



## Octaviar Update

### Public Trustee of Queensland – Application against Administrators of Octaviar Limited (In Administration) and Octaviar Administration Pty Ltd (In Administration) Supreme Court of Queensland

The Honourable Justice McMurdo in the Supreme Court of Queensland handed down judgement on 31 July 2009 in relation to the applications filed by the Public Trustee of Queensland on 19 February 2009 in relation to Octaviar Limited (In Administration) (Receivers & Managers Appointed) and Octaviar Administration Pty Ltd (In Administration).

Each Application sought orders under sections 445D and 447A of the *Corporations Act 2001* (Cth), and particularly sought termination of the Deed of Company Arrangement for Octaviar Limited and Octaviar Administration Pty Ltd.

His Honour Justice McMurdo ordered that:

-  each of the Deeds of Company Arrangement for Octaviar Limited and Octaviar Administration Pty Ltd be terminated
-  John Lethbridge Grieg and Nicholas Harwood (the current Administrators of Octaviar Limited and Octaviar Administration Pty Ltd) be appointed provisional liquidators until further order of the Court.

It is unclear at this time what effect the appointment of liquidators to each of Octaviar Limited and Octaviar

Administration Pty Ltd will have in relation to any potential recovery by the Premium Income Fund.

The Court will hear applications brought by the Public Trustee of Queensland to remove Mr Greig and Mr Harwood as liquidators of each of Octaviar Limited (In Provisional Liquidation) and Octaviar Administration Pty Ltd (In Liquidation) on 3 September 2009.

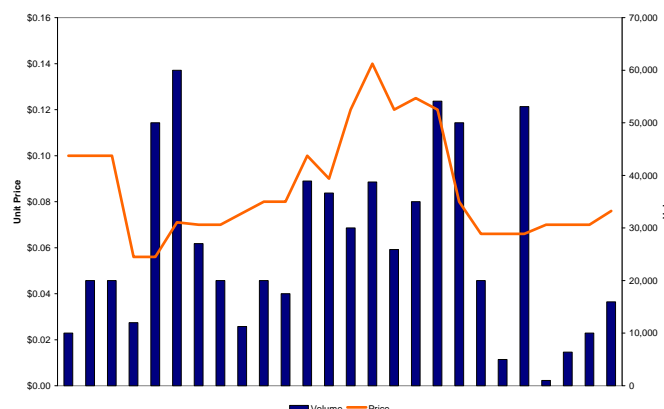
## National Stock Exchange Update

Trading in the Premium Income Fund (NSX:PIN) commenced on 16 October 2008.

A summary of trading activity from 1 May 2009 to 31 August 2009 is set out below:

High	Low	Volume (01/05/2009 – 31/08/2009)
14 cents	5.6 cents	688,492

### Trading summary (NSX:PIN) 1 May 2009 to 31 August 2009



## Contact

### Premium Income Fund

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