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<State Postcode>

<Insert Date>

Dear Investor,

## Pacific First Mortgage Fund - Accounts and Update

### Summary

Please find enclosed the financial accounts for the Pacific First Mortgage Fund (**Fund**) for the year ended 30 June 2009 (**Accounts**). The Asset Review has also been completed and a summary of our findings will be finalised this month and mailed to Unitholders.

In order to complete the Accounts, the responsible entity of the Fund (**RE**), Trilogy Funds Management Limited (**Trilogy**) and its Asset Manager, Balmain Trilogy Investment Management Pty Limited (**Balmain Trilogy**), were required to undertake a comprehensive assessment of the value of each property. This Asset Review, which required a detailed assessment of the likely recovery from each of the loans in the Fund, resulted in a further write-down in value of the gross Fund assets to \$521.1 million (as at 30 June 2009). This write down represents an additional impairment of \$108.9 million from the written down value as at 31 December 2008 (\$630 million).

We appreciate this write-down is extremely disappointing for Unitholders. At this stage we do not believe that any further significant impairments will be required and we are actively working to ensure that the value of the assets in the Fund are maintained and, where possible, enhanced for the benefit of all Unitholders.

### Accounts

As previously announced the Australian Securities & Investments Commission (ASIC) granted an extension to lodge the Fund's Annual Accounts ('Accounts') until 15 November 2009. The Accounts include the revised valuations of the assets as at 30 June 2009. The revised valuations resulted from Balmain Trilogy's definitive review of the Fund assets in conjunction with the Fund's auditor (KPMG). The net tangible assets of the Fund (after accounting for the \$91 million owing to Commonwealth Bank of Australia as at 30 June 2009) represent \$0.48 per unit.

## Asset Review and Strategy

In fulfilling one of our key commitments to Unitholders Balmain Trilogy has now completed a detailed review of the assets of the Fund.

The results of the Asset Review will determine the optimal management of the Fund assets going forward. This includes the:

- management of performing loans in the portfolio;
- management of defaulting borrowers and procuring their compliance with their obligations to the Fund; and
- management of the underlying security (i.e. the physical properties) in respect of loans where the Fund has taken possession of the assets either in its own right or via the appointment of a corporate administrator.

Where the Fund is in possession of the securities we will continue to manage these properties in the best interests of Unitholders. This means that, dependent upon the complexity of the asset and the sector of the market that it occupies, we will variously be implementing:

- (short) sales of the security properties in the shorter term;
- (medium) improvements of the security properties by way of additional capital expenditure for sale in the medium term;
- (long) proper long-term development strategies for the management of significant and 'far horizon' development assets such as the numerous Fund assets at Martha Cove on the Mornington Peninsula in Victoria.

Each of these courses of action impacts the liquidity of the Fund either with resulting inflows or outflows in respect of each Fund asset. This will consequently determine the Fund's ability to make payments to Unitholders.

We remain acutely aware of our Unitholders various requirements which, at the extremities, vary from wanting '*whatever is left after a fire sale*' to '*money back in full even if it takes 5 years*'. Consequently whilst the 'short' and 'medium' assets (see above) present a clearly defined programme, our management of the Fund's 'long' assets will need to take into account the feedback from you, our Unitholders.

It is entirely possible that the optimal asset management programme will not suit Unitholders preferences and a lesser, tailored programme will need to be adopted. We do, however, hope that this is not the case as we believe that the quality and nature of the 'long' assets is sufficient to go a long way to returning a significant part of the capital 'lost' by Unitholders.

We will be notifying all Unitholders of the summary findings of the Asset Review by the end of November 2009. We will not be implementing any strategy in respect of the 'long' assets until such time as we have properly canvassed the views of Unitholders (from correspondence, web-site feedback and the meetings of the Investor Committee) as this strategy will directly impact on projected payments to Unitholders.

## Commonwealth Bank Facility

The Fund's indebtedness to the Commonwealth Bank was reduced from the 30 June 2009 balance of \$91.00m by \$8.7m to now stand at \$82.3m. Negotiations with the CBA are nearing conclusion and an announcement in respect of an extended facility will be made soon.

## **Payments to Unitholders**

The Fund assets currently produce negligible cash income. This income is not sufficient to cover the expenses of the Fund. The Fund's liquidity is largely generated by the repayment of loans and from the sale of security properties where loans are in default.

The extension of the facility (discussed above) will enable the Fund to significantly pay down this loan in an orderly fashion without the need for any precipitous 'fire sale' or other extreme measures.

Whilst protecting the value of the Fund's assets it is unlikely that we will be able to reduce the Commonwealth Bank debt to maintainable levels until the second quarter of 2010. Consequently we do not anticipate that the Fund will be in a position to consider making any payments to Unitholders until towards the end of the current financial year (May-June 2010).

Given various restrictions under the Fund's Constitution, (such as the fixed \$1.00 redemption price per unit) the process by which payments can eventually be made to Unitholders is still not formalised. We will, in consultation with Unitholders, be making such changes to the Constitution as are required to enable the Fund to be ready to make payments as soon as it is possible...

## **Hardship Requests**

We have received several redemption requests from Unitholders claiming significant personal or financial hardship. We are currently finalising a Hardship Policy (in accordance with the ASIC guidelines) to set out the eligibility requirements for Unitholders wishing to claim such a 'hardship' payment. For those who fall within these criteria, we hope to have a solution within a reasonably short period of time.

No hardship payments will be made until the Commonwealth Bank loan facility is extended and the Fund's Constitution is amended appropriately. We will only consider genuine hardship situations.

## **Legal Review**

The legal work is continuing with the initial focus on transferring mortgages and other securities to the new RE and ensuring that the Fund has proper title to all of its intended security.

With this largely completed our focus is now on the review of the former RE's procedures and investment decisions in respect of individual loans both to its own related entities and to third parties. We believe that there are many strong grounds for commencing legal actions against the former RE, its directors and officers and other 'unrelated' parties.

We will not be commencing actions against any party which is either frivolous or does not have a reasonable prospect of success. We do not intend to put Unitholders' funds at risk via expensive legal proceedings where there is little likelihood of recovery. Our forensic work continues to identify which actions we will be pursuing.

Unitholders will be updated as the legal recovery strategy progresses as more information becomes available.

## **Investor Committee**

More than 300 Unitholders have registered as wishing to be members of the Investor Committee. The intention is to have a maximum of 10 Unitholder representative members, plus members from Balmain Trilogy and an independent chairperson. We are obtaining further information from those people who registered, to assist the auditor in selecting the appropriate candidates for the Investor Committee. We intend to complete this process by early December so that its first meeting can be held before Christmas.

## Quarterly Newsletter

It is our intention to send (by email if you have so elected) a quarterly update to Unitholders which will communicate the assets strategy, proposed payments to Unitholders, legal review process and any other relevant information.

## Summing Up

The Asset Review and resulting impairment provisions, as expected, revealed a further write down of the value of the Fund's assets.

Since taking over the management of your Fund, the focus has been on:-

- Securing the assets with the independent Custodian
- Transferring books and records from City Pacific
- Holding regular discussions with ASIC and the Auditors
- Establishing the independent unit registry with Computershare
- Inspecting all security properties
- Holding discussions with all borrowers, advisers and as necessary taking appropriate protective actions (such as appointing Receivers)
- Completing a thorough Asset Review
- Finalising the 30 June Financial Accounts for the Fund

We are now concentrating on how to make payments to Unitholders, the Legal Review and the most appropriate long term strategy(s) for restoring value out of the undeveloped assets.

The final decisions, however, on the longer-term strategy will only be made after consultation with Unitholders but we believe that significant recoveries of 'lost' capital can be achieved if the Fund is patient and considered in its treatment of its significant longer term assets.

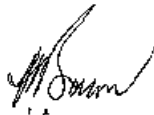
We will carry out our pledge to keep you informed of progress. This will be via the web site [www.balmaintrilogy.com.au](http://www.balmaintrilogy.com.au) and the Newsletter.

If you have any questions regarding this letter please call the Investor Services Team on 1800 194 500.

Yours sincerely,



Andrew Griffin  
Joint Chief Executive



Rodger Bacon  
Joint Chief Executive