

23 August 2010

Dear Unitholder

## Institutional Liquidity Offer

Trilogy Funds Management Limited (**Trilogy**), the responsible entity of Pacific First Mortgage Fund (**Fund**) encloses an offer by Project Junior Pte Ltd (**PJPL**), an entity owned by Morgan Stanley Real Estate Special Situations Fund III LP (**MS SSF III**), to acquire part or all of your unitholding in the Fund (**PJPL Offer**).

Trilogy and your manager, Balmain Trilogy Investment Management Pty Limited (**Balmain Trilogy**), have been pursuing the strategy of providing unitholders with maximum possible personal choice as to their participation in the future of the Fund. The New Strategy as detailed in the recently published Explanatory Memorandum allows for **considerable choice** and will be voted on by unitholders at the meeting of unitholders to be held on 1 September 2010 (**Meeting**).

The New Strategy does not provide unitholders with a **choice to exit the Fund immediately**. This choice is provided by the PJPL Offer as detailed in the accompanying Offer Booklet. The offer from PJPL was a result of Balmain Trilogy seeking liquidity offers from institutions to provide unitholders with an opportunity to exit the Fund.

PJPL was selected as the preferred institution because of its considerable experience, demonstrable capacity to finance such an offer and, most importantly, its preparedness to provide an offer to unitholders that enabled the full implementation of the New Strategy whilst allowing unitholders an option to exit the Fund immediately.

The PJPL Offer is to acquire up to 49% of the units in the Fund at a price of \$0.26 each. The PJPL Offer closes on 30 September 2010 (unless extended) and is subject to several conditions being satisfied or waived by PJPL. The most relevant conditions are that:

1. the New Strategy is adopted by unitholders at the upcoming Meeting (i.e. Resolution 1 is passed by the requisite majority); and
2. PJPL receives acceptances for not less than 10% of the units on issue.

Balmain Trilogy and Trilogy do not believe that the PJPL Offer price is reflective of Trilogy or Balmain Trilogy's ability or capacity to deliver and return funds back to unitholders. Consequently whilst Trilogy and Balmain Trilogy do not believe that the offer price represents the true long-term value of the units, Trilogy believes that it remains in the best interests of the unitholders to receive the PJPL Offer because the PJPL Offer provides every unitholder with further choice. The PJPL Offer does not compel any unitholder to sell their units (i.e. no unitholder can be forced to accept the PJPL Offer). Each unitholder may either ignore the PJPL Offer or accept the PJPL Offer (for all or some of their units) as each unitholder deems appropriate. Trilogy believes it would not be in unitholders' interests for Trilogy or Balmain Trilogy to decide matters on behalf of the unitholders by withholding an offer such as the PJPL Offer.

Whilst neither Balmain Trilogy nor Trilogy recommends that you either accept or reject the PJPL Offer, we specifically draw your attention to the following matters:

- the PJPL Offer is at \$0.26 whereas:
  - the audited net tangible assets of the Fund per unit was \$0.47 per unit as at 31 December 2009. However, we note that there may be further changes in the net asset value of the Fund once the accounts of the Fund for the financial year ended 30 June 2010 are audited;
  - under the New Strategy, Balmain Trilogy is aiming to achieve redemptions of over \$0.33 per unit prior to October 2012. The redemption program will then continue based on the extent of further asset realisations;
- the PJPL Offer (to the extent that it is accepted) includes the acquisition of your Litigation Recovery Entitlement Units that will be created if Resolution 1 is passed;
- the PJPL Offer is conditional upon the passing of Resolution 1;
- PJPL may gain effective control of the Fund; and
- unit redemptions under the Hardship Redemption Policy (as described in the recently published Explanatory Memorandum in relation to the Meeting, and which is subject to ASIC approval and the passing of Resolution 1) will be paid out at the current value per unit (which is based on the net tangible assets of the Fund per unit).

For the sake of transparency, there is no relationship between any of Balmain NB Corporation Limited (**Balmain**), Trilogy or Balmain Trilogy (on the one hand) and MS SSF III or PJPL (on the other hand), or any of their respective subsidiaries, related parties or associates, other than the fiduciary relationship that may exist should PJPL become a unitholder in the Fund. Neither Balmain, Trilogy nor Balmain Trilogy will receive any financial benefit whatsoever if unitholders accept the PJPL Offer.

The Fund is one of many mortgage funds that remain frozen in Australia, and neither Trilogy nor Balmain Trilogy is aware of any other responsible entity or manager of a significant mortgage fund that has been able to procure an offer such as the PJPL Offer for their unitholders. This immediate liquidity offer for unitholders from a new institutional investor, notwithstanding that the assets of the Fund are more complex than those that exist in other mortgage funds, may therefore be viewed as a beneficial opportunity for those who wish to exit the Fund immediately.

Although Trilogy is of the opinion that the PJPL Offer does not represent the true long-term value of the units in the Fund, it does provide unitholders with **further choice**. Whether (or not) you wish to accept the PJPL Offer is a matter for you, as a unitholder, and you alone.

We do, however, recommend that you read this letter and the Offer Booklet carefully and seek professional advice if necessary.

Yours sincerely



**Rodger Bacon**  
Joint Chief Executive



**Andrew Griffin**  
Joint Chief Executive

# Questions and Answers

## Who is PJPL and Morgan Stanley Real Estate Special Situations Fund III?

The PJPL Offer is being made by PJPL, a Singaporean private company recently incorporated for the purpose of making the PJPL Offer. All of the shares in PJPL are held by Morgan Stanley Real Estate Special Situations Fund III, LP (**MS SSF III**). MS SSF III is the third in a series of real estate funds sponsored by Morgan Stanley, which generally seeks to make non-controlling investments in securities of private and public real estate related companies and portfolios of real estate and real estate related assets. MS SSF III is a limited partnership established in Delaware, USA. MS SSF III is managed by Morgan Stanley Real Estate Special Situations III-GP, LLC, a related entity of Morgan Stanley, which serves as MS SSF III's general partner. The investors in MS SSF III are a broad range of institutional and private investors.

You should note that the PJPL Offer represents an offer by a real estate investment fund sponsored by Morgan Stanley and not by Morgan Stanley in a principal capacity. Please refer to the Offer Booklet for details of the PJPL Offer.

## Why have PJPL Made this Offer?

In order to provide maximum choice and opportunity to unitholders, Balmain Trilogy as investment manager of your Fund commenced discussion with several institutions for the purpose of eliciting an offer to unitholders to buy their units. PJPL was selected as the preferred institution because of its considerable experience, demonstrable capacity to finance such an offer and, most importantly its preparedness to provide an offer to unitholders that enabled the full implementation of the New Strategy whilst allowing unitholders an option to exit the Fund immediately.

PJPL did not approach Trilogy but rather it was asked by Trilogy to consider making the offer to unitholders. Trilogy and Balmain Trilogy are of the opinion that any offer made to each unitholder can only be of benefit to the unitholders. There is no compulsion upon you to accept the PJPL Offer, and the PJPL Offer simply gives you another option to consider.

The Fund is one of many mortgage funds that remain frozen in Australia, and neither Trilogy nor Balmain Trilogy is aware of any other responsible entity or manager that has been able to procure an offer such as the PJPL Offer for their unitholders. This immediate liquidity offer for unitholders from a new institutional investor, notwithstanding that the assets of the Fund are more complex than those that exist in other mortgage funds, may therefore be viewed as a beneficial opportunity for those who wish to exit the Fund immediately.

## What is the relationship between MS SSF III and PJPL, and Trilogy, Balmain Trilogy and Balmain?

For the sake of transparency there is no relationship between any of Balmain, Trilogy or Balmain Trilogy (on the one hand) and MS SSF III or PJPL (on the other hand), or any of their respective subsidiaries, related parties or associates, other than the fiduciary relationship that may exist should PJPL become a unitholder in the Fund.

Neither Balmain, Trilogy nor Balmain Trilogy will receive any financial benefit whatsoever if unitholders accept the PJPL Offer.

# Questions and Answers

## What is the PJPL Offer?

In summary the Offer from PJPL is \$0.26 per unit and subject to certain conditions including:

1. unitholders pass Resolution 1 (to adopt the New Strategy) by the requisite majority at the upcoming unitholder Meeting; and
2. PJPL receives acceptances from unitholders for not less than 10% of the units on issue.

The reasons PJPL have given to Trilogy for imposing these conditions are, respectively:

1. PJPL does not wish to invest in a Fund that does not adopt an optimal strategy for realising the Fund's assets as provided in the New Strategy; and
2. PJPL does not wish to invest in the Fund in an amount less than \$23m as it would be too small an investment for PJPL.

Please note the above mentioned conditions may be waived by PJPL before the closing date of the PJPL Offer.

The PJPL Offer will close on 30 September 2010 unless extended by PJPL.

The full terms and conditions of the PJPL Offer are contained in the Offer Booklet. This is an important document and we recommend that you read it carefully and seek professional advice if necessary.

## Will the New Strategy be compromised by the PJPL Offer?

Depending on the number of units that are acquired by PJPL, PJPL may gain effective control of the Fund by virtue of a significant and influential unitholding. Consequently if PJPL acquires a significant parcel of units in the Fund, PJPL may be able to use this position of control to seek to remove either or both of the responsible entity and/or the investment manager, or seek to make other changes to the constitution of the Fund.

There is no guarantee that this will not happen however at this stage PJPL has advised Trilogy that it has no intention of doing anything to prevent the current responsible entity (Trilogy) and investment manager (Balmain Trilogy) from executing the New Strategy for the Fund if the New Strategy is approved by unitholders.

## What does Trilogy/Balmain Trilogy Recommend?

Every unitholder is in a unique financial position. Neither Trilogy nor Balmain Trilogy intends to make any recommendation in relation to the PJPL Offer as this would be personal advice to each unitholder in the absence of any knowledge of your personal financial affairs.

Whether (or not) you wish to accept the PJPL Offer is a matter for you, as a unitholder, and you alone. The decision you need to make is whether you wish to exit the Fund immediately at \$0.26 (by accepting the PJPL Offer) or remain invested in the Fund by not accepting the PJPL Offer. We do, however, repeat our recommendation that you read this letter and the Offer Booklet carefully and seek professional advice if necessary.

Neither Trilogy nor Balmain Trilogy has any vested interest in the success or otherwise of the PJPL Offer. Our reason for procuring the PJPL Offer was to give you, as a unitholder, as many options (choices) as possible in respect of your ongoing investment in the Fund.

# Questions and Answers

## Does the PJPL Offer price at \$0.26 reflect the true long-term value of the Fund?

Trilogy and Balmain Trilogy confirm that the PJPL Offer price proposed by PJPL at \$0.26 per unit **does not** reflect their view of the true long-term value of the Fund. As at 31 December 2009 the value of the Fund was audited at \$0.47 per unit and the current unaudited assessment (before asset revaluations) of the Fund indicates the 31 December 2009 value is maintained. However there may be further changes in the net asset value of the Fund once the accounts of the Fund for the financial year ended 30 June 2010 are audited.

PJPL has offered a price that is reflective of its assessment of the risks involved in an investment in an unlisted mortgage fund with a complex underlying asset base. However, Balmain Trilogy and Trilogy do not believe that the PJPL Offer price is reflective of Trilogy or Balmain Trilogy's ability or capacity to deliver and return funds back to unitholders.

## What happens to my proxy if I accept the PJPL Offer?

If you accept the PJPL Offer to sell your units in part or in full prior to the Meeting, then while the PJPL Offer is conditional you will still be entitled to vote your units at the Meeting or via proxy. Should the PJPL Offer become unconditional (i.e. all conditions are satisfied or waived by PJPL) prior to the Meeting taking place, by accepting the PJPL Offer you will have authorised PJPL to exercise your voting entitlement and PJPL will be entitled to vote those units at the Meeting. If you elect to sell part of your unitholding and you have already sent in a proxy, that proxy will still be valid to the value of the residual number of units held by you.

## What About Your Share of Litigation Proceeds?

If the PJPL Offer becomes unconditional and the offer period does not exceed six weeks, your units will be purchased by PJPL before the record date for the Litigation Recovery Entitlement Unit split. In other words, if you elect to accept the PJPL Offer and the PJPL Offer becomes unconditional, you will not be entitled to any litigation proceeds in respect of the units that have been sold to PJPL. If however you elect to only sell part of your unitholding to PJPL, you will be entitled to litigation proceeds in respect of the units that you have not sold to PJPL.

## When do You Get Paid if You Accept the PJPL Offer

The Offer Booklet provides that if the PJPL Offer proceeds and you accept the PJPL Offer you will receive your payment on the later of:

- 10 business days following the satisfaction (or waiver by PJPL) of the conditions; or
- 10 business days following the receipt of your correctly completed and signed acceptance form if the conditions have already been satisfied (or waived by PJPL).

## What You Should Do Now?

If you **wish to accept** the PJPL Offer you should follow the procedures set out in PJPL's Offer Booklet. If you **do not wish to accept** the PJPL Offer **you need do nothing at all**.

# What will Trilogy Do Now?

Trilogy will provide regular updates on the website ([www.balmaintrilogy.com.au](http://www.balmaintrilogy.com.au)) of the number of unitholder acceptances received by Computershare. We will also announce on the website when the PJPL Offer becomes unconditional or, alternatively, is withdrawn. We will advise all unitholders in writing of the final outcome of the PJPL Offer as soon as it is known.

For more information on the PJPL Offer, please call 1800 707 861 (toll free for callers within Australia) or +61 2 8256 3387 (for callers outside Australia) to speak to a representative of PJPL or contact the Balmain Trilogy Client Services Team on 1800 194 500.