

Regulatory Guide 45 Product Disclosure under ASIC

The following table provides an update on the benchmarks set by the Australian Securities and Investments Commission in the Regulatory Guide 45: Mortgage Schemes – improving disclosure for retail investors and explains to what extent Trilogy Funds Management Limited (‘Trilogy’) as Responsible Entity of the Pacific First Mortgage Fund (the ‘Fund’) and Balmain Trilogy Investment Management Pty Limited (‘Balmain Trilogy’) as Investment Manager satisfies them.

This disclosure is correct at 31 August 2011.

ASIC BENCHMARK	BENCHMARK SATISFIED	DISCLOSURE
<p>Benchmark 1 — Liquidity</p> <p>RG 45.38</p> <p>a) The Responsible Entity should have cash flow estimates for the Fund for the next 3 months.</p> <p>b) The Responsible Entity should ensure that at all times the Fund has cash or cash equivalents sufficient to meet its projected cash needs over the next 3 months.</p> <p>c) The Responsible Entity should not take undrawn credit facilities into account when calculating cash flow estimates.</p>	Satisfied	<p>RG 45.38</p> <p>The Fund is currently operating as an illiquid managed investment scheme.</p> <p>As at 31 August 2011, the Fund held \$2,331,063 in cash which represents 0.7% of total Fund assets.</p> <p>Balmain Trilogy, the Investment Manager appointed to manage the assets of the Fund, has cash flow estimates for the Fund for the next 3 months and forecasts that it has cash, or cash equivalents, sufficient to meet the Fund’s projected cash needs over the next 3 months.</p>
<p>RG 45.39</p> <p>The Responsible Entity should disclose its policy on balancing the maturity of assets and maturity of liabilities</p>	Satisfied	<p>RG 45.39</p> <p>Balmain Trilogy closely monitors the maturity of the portfolio assets and the Fund’s liabilities.</p>

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<p>Benchmark 2 — Fund Borrowing</p> <p>RG 45.47 If the Responsible Entity has borrowed funds it should disclose;</p> <ul style="list-style-type: none"> a) For each borrowing that will mature in 5yrs or less, the amount owing and the maturity profile in increments of not more than 12 months b) For borrowings that mature in more than 5 years, the aggregate amount owing c) For each credit facility, the aggregate undrawn amount and the maturity profile in increments of no more than 12 months d) The fact that amounts owing to lenders and other creditors of the Fund rank before an investors interests in the Fund e) The purpose for which the funds have been borrowed, including whether they will be used to fund distributions or withdrawal amounts <p>RG45.48 If borrowings and credit facilities are due to mature within 12 months, the Responsible Entity should make appropriate disclosure about the prospects of refinancing or possible alternative actions. If the Responsible Entity has no reasonable grounds for commenting on the prospect of refinancing or possible alternative returns, they should state this and explain why to investors.</p> <p>RG 45.49 The Responsible Entity should explain any risks associated with borrowing and credit facility maturity profile, including whether borrowings have been hedged and if so, to what extent.</p> <p>RG 45.50 The Responsible Entity should also disclose any information about breaches of loan covenants that is reasonably required by investors and update investors about the status of any breaches through ongoing disclosure.</p>	<p>Satisfied</p>	<p>RG 45.47 - 50 On 24 August 2010, the Directors' of the Responsible Entity agreed terms to extend the Fund's Finance facility for a further two years with the Deed of Amendment and Restatement being executed on 14 September 2010. The facility limit was reduced to \$40 million.</p> <p>The key terms of the facility are as follows:</p> <ul style="list-style-type: none"> – Maximum accommodation amount made up of two segments: <ul style="list-style-type: none"> • Segment 1: Core Facility of \$30,000,000 (existing and fully drawn); and • Segment 2: Acceleration Facility of \$10,000,000 (undrawn). <p>Please note the Acceleration Facility has been granted for the purpose of facilitating redemption payments, capital repayments, capital reduction payments and any other form of distribution to unitholders. The Acceleration Facility has not been drawn since approval and if drawn it is required to be repaid within 90 days. Balmain Trilogy and Trilogy have no intentions of drawing on the acceleration facility.</p> – The term of the facility expires on the earliest of: <ul style="list-style-type: none"> • 31 August 2012; and • the date the CBA declares the obligations of the Group due and payable after an event of default. <p>As previously advised in the RG 45 disclosures dated 30 November 2009 the former Responsible Entity (City Pacific Limited) entered into the original finance agreement to meet cash flow requirements, including paying expenses for the Fund and for payment of progress draws to the Fund's borrowers.</p> <p>We also note that there are no borrowings that mature in more than 5 years.</p>

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<p>Benchmark 3 — Portfolio Diversification</p> <p>RG 45.53</p> <p>The Responsible Entity should disclose the current nature of the Fund's investment portfolio, including the following:</p> <ul style="list-style-type: none"> a) By number and value, loans by class of activity (industry sector) b) By number and value, loans by geographic region c) By number and value, what proportion of loans are in default or arrears d) By number and value of loans, what is the nature of the security for loans made by the Fund (e.g. first or second ranking) e) What proportion of the total loan monies have been lent to the largest borrower and the largest 10 borrowers f) By number and value, loans that have been approved but have funds that have yet to be advanced and the funding arrangements in place for any undrawn loan commitments g) By number and value, the maturity profile of all loans in increments of not more than 12 months h) By number and value of loans, LVR for loans in percentage ranges i) By number and value of loans, interest rates on loans, in percentage ranges j) By number and value, loans where interest has been capitalised k) The use of derivatives (if any) l) A description of the non-loan assets of the Fund, include the value of these assets 	<p>Satisfied</p>	<p>RG45.53</p> <p>Portfolio information required under RG 45.53 a) – l) is detailed in Annexure A.</p>

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<p>RG 45.54</p> <p>Disclose the policy on the above items and on how the Fund will lend funds generally including;</p> <p>a) The maximum loan amount for any one borrower</p> <p>b) The method of assessing borrowers' capacity to service loans</p> <p>c) Policy on revaluing security properties when a loan is rolled over</p> <p>d) Approach to taking security on lending by Fund (eg security type, if it must be income producing)</p>	Satisfied	<p>RG 45.54</p> <p>Balmain Trilogy adheres to specific lending principles that are governed by an internal Credit Policy. The current profile of the Fund's portfolio (as detailed in Annexure A) consists of non-performing loans which are in significant arrears. This has resulted in several policy guidelines being breached in terms of Loan to Value ratios and individual exposure limits. Balmain Trilogy is actively managing the portfolio to ensure the risks associated with these exposures are mitigated.</p> <p>The Fund's Credit Policy provides, amongst other things, that:</p> <p>(a) the maximum loan to any one borrower is 20% of the total assets of the Fund;</p> <p>(b) a borrower's capacity to service loans must be assessed through the servicing capability of the borrower and the feasibility of the project; and</p> <p>(c) Security properties will be revalued prior to each loan roll-over in accordance with the valuation requirements as detailed in the valuation policy. Further details regarding the valuation policy has been detailed in Benchmark 5.</p> <p>At the present time, of the total of 28 loans provided by the Fund*, 26 have a first ranking mortgage and 2 have a second ranking mortgage over real estate situated within specified states and territories in Australia. In the case of the RG45, the 28 loan files represent those loan files which have security remaining. The 30 June 2011 accounts state 30 loan files were represented, as it was a full list of all remaining loan files, including those that had no remaining security and are pending write-off. For these purposes, additional types of security may be taken including company charges and personal guarantees to support the primary security. It is not a requirement of the Fund that the security property be income producing. Please refer to Annexure A for further details regarding the mortgages held by the Fund.</p>
<p>RG 45.55</p> <p>If the Fund invests in other unlisted mortgage schemes, the Responsible Entity should disclose their policy on investing in those schemes, including the extent to which the Responsible Entity requires the other scheme to satisfy these benchmarks.</p>	Satisfied	<p>RG 45.55</p> <p>The Fund does not invest in any unlisted mortgage schemes</p>

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<p>Benchmark 4 – Related Party Transactions</p> <p>RG 45.61</p> <p>Where the Responsible Entity transacts with related parties of the Fund (including lending or investing Fund funds with related parties) it should disclose its approach to these transactions, including</p> <ul style="list-style-type: none"> a) Details of loans, investments and transactions made to or with a related party b) Its policy on related party transactions including the assessment and approval process for related party lending and arrangements to manage conflicts of interest c) How the processes and arrangements are monitored to ensure its policy is followed 	<p>Satisfied</p>	<p>RG 45.61</p> <ul style="list-style-type: none"> a) As at 31 August 2011 the Fund does not provide any loans to any related parties of the Investment Manager or Responsible Entity. b) Trilogy has a policy of not making a Mortgage Investment on behalf of the Fund in any other fund, whether or not it is an entity associated with Trilogy. Directors and staff may invest in the Fund on the same terms and conditions as other investors. c) There is no related party lending or borrowing in relation to the Fund. Trilogy’s Compliance plan for the Fund outlines the controls in place around related party transactions. The Compliance Plan is audited externally on an annual basis and monitored by the Responsible Entity Compliance Committee on a quarterly basis.

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<p>Benchmark 5 – Valuation Policy</p> <p>RG 45.64</p> <p>The Responsible Entity should take the following approach to valuations of properties over which it has taken security</p> <ul style="list-style-type: none"> a) Properties should be valued on an ‘as is’ basis (and on an ‘if complete’ basis for development properties) b) The Responsible Entity should have a policy on how often it obtains valuations, including how recent a valuation has to be when it makes a new loan c) The Responsible Entity should establish a panel of valuers and ensure that no one valuer conducts more than 1/3 of our valuation work for the Fund, calculated by value of properties 	<p>Satisfied</p>	<p>RG 45.64</p> <ul style="list-style-type: none"> a) Where a new loan is for development or construction purposes, the valuer assesses the property on both an ‘as is’ and an ‘as if complete’ basis. All other property loans are valued on an ‘as is’ basis. <ul style="list-style-type: none"> Please note that 27 of loans in the PFMF are impaired financial assets and are valued in accordance with accounting standards. b) Balmain Trilogy’s valuation policy is as follows; <ul style="list-style-type: none"> i) All external valuations must be performed by panel valuers who must undergo an accreditation process prior to formal inclusion on the panel. ii) It is preferred that Balmain Trilogy instruct the valuer, however if not, the valuation must be addressed or assigned to Balmain Trilogy for mortgage purposes under standard instructions. Balmain Trilogy will provide its standard instructions to the valuer that the valuation should be addressed or assigned to Trilogy Funds Management Limited or the Custodian. iii) The panel valuer must be independent of the borrower and Balmain Trilogy. iv) The valuer must be instructed to prepare the valuation report in a format which clearly sets out the primary methodology used and, if so requested, a secondary check valuation methodology, and in accordance with the instructions. v) The report must comment as to whether the mortgaged property represents satisfactory security for mortgage purposes as appropriate. vi) All valuations must be addressed to Trilogy Funds Management Limited or the Custodian and be able to be relied upon by Balmain Trilogy. vii) All valuations must be not more than 3 months old as at the date of approval of the loan. viii) Valuations for construction projects should state a replacement value in the valuation for the purpose of Balmain Trilogy determining the amount of insurance required c) Balmain Trilogy maintains a panel of valuers and ensures that no one valuer conducts more than one-third of the valuation work. A ‘Valuation Register’ is maintained to monitor the valuations conducted. The panel of valuers is reviewed annually.

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<p>RG 45.65</p> <p>Disclose information about the valuation of a particular property where a loan secured against the property accounts for 5% or more of the total value of the Fund's loan book.</p>	Satisfied	<p>RG 45.65</p> <p>The following 10 loans each account for more than 5% of total value of the Fund's book on an impaired basis;</p> <table border="1"> <thead> <tr> <th>Impaired Value</th> <th>% of Impaired Book Value</th> </tr> </thead> <tbody> <tr> <td>\$15,344,206</td> <td>5.0%</td> </tr> <tr> <td>\$16,007,331</td> <td>5.2%</td> </tr> <tr> <td>\$17,184,763</td> <td>5.6%</td> </tr> <tr> <td>\$17,948,353</td> <td>5.8%</td> </tr> <tr> <td>\$18,445,941</td> <td>6.0%</td> </tr> <tr> <td>\$18,870,669</td> <td>6.1%</td> </tr> <tr> <td>\$19,575,522</td> <td>6.4%</td> </tr> <tr> <td>\$20,970,395</td> <td>6.8%</td> </tr> <tr> <td>\$30,840,157</td> <td>10.0%</td> </tr> <tr> <td>\$56,405,533</td> <td>18.3%</td> </tr> </tbody> </table>	Impaired Value	% of Impaired Book Value	\$15,344,206	5.0%	\$16,007,331	5.2%	\$17,184,763	5.6%	\$17,948,353	5.8%	\$18,445,941	6.0%	\$18,870,669	6.1%	\$19,575,522	6.4%	\$20,970,395	6.8%	\$30,840,157	10.0%	\$56,405,533	18.3%
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<p>RG 45.66</p> <p>The Responsible Entity should only use valuers who:</p> <ol style="list-style-type: none"> Where possible, are registered under one of the state/territory valuer registration regimes or a relevant overseas registration regime Include a statement in their valuation reports on whether the valuation complies with all relevant industry standards and codes. 	Satisfied	<p>RG 45.66</p> <p>Valuers who are appointed by Balmain Trilogy:</p> <ol style="list-style-type: none"> Are registered under one of the state/territory valuer registration and accreditation regimes; and Include a statement in their valuation reports as to whether the valuation complies with all relevant industry standards and codes. 																						
<p>Benchmark 6 – Lending Principles – Loan to Valuation Ratios</p> <p>RG 45.70</p> <p>The Responsible Entity should maintain the following loan to valuation ratios for loans made by the Fund.</p> <ol style="list-style-type: none"> Where the loan relates to development property – 70% on the basis of the latest 'if complete' valuation All other cases – 80% on the basis of the last market valuation 	Not satisfied	<p>RG 45.70</p> <p>The Fund does not meet this benchmark as the majority of loans are in default and impaired and therefore the LVR exceeds 70%. If lending resumes in future, standard lending principles will apply.</p>																						

<p>RG 45.71</p> <p>Where the loan relates to property development, the Responsible Entity should ensure that the Fund only provides funds to the developer in stages, based on external evidence of the progress of the development</p>	<p>Satisfied</p>	<p>RG 45.71</p> <p>Development loans relate to where a borrower utilises the loan monies to construct buildings (e.g. units, houses, commercial or retail property) or to undertake land development. On the sale of a unit, house, commercial or retail building, or part of the land, all or part of the proceeds are utilised to reduce the borrower's debt.</p> <p>Development loans involve close supervision by Balmain Trilogy. To this end, Balmain Trilogy will appoint an external quantity surveyor, engineer, project manager or valuer to advise and monitor as to:</p> <ul style="list-style-type: none"> i) the amount of all draw downs by a borrower and all payments which are to be made to contractors in stages based on the progress of development; and ii) the costs to complete the project.
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<p>Benchmark 7 – Distribution Practices</p>		
<p>RG 45.75</p> <p>If the Fund is making (or forecasts making) distributions to unitholders, the Responsible Entity should disclose:</p> <ul style="list-style-type: none"> a) The source of the current distribution b) The source of any forecast distribution c) If the current or forecast distribution is not solely sourced from income received in the relevant distribution period, the reasons for making those distributions, d) If the current distribution or forecast distribution is sourced other than from income, whether this is sustainable over the next 12 months 	<p>Satisfied</p>	<p>RG 45.75</p> <p>At present, only distributions are being paid in the form of capital repayments and hardship redemptions.</p> <p>Please note that it is targeted that Balmain Trilogy will return capital to unitholders over the course of the next two years subject to liquidity.</p>
<p>RG 45.76</p> <p>If the Fund promotes a particular return on investments, the Responsible Entity should clearly disclose details of the circumstances in which a lower return may be payable, together with details of how that lower return will be determined.</p>	<p>Satisfied</p>	<p>RG 45.76</p> <p>At present, no interest distributions are being paid and only capital repayments are being returned to Unitholders.</p> <p>Please note that Balmain Trilogy will return capital to unitholders over the course of the next two years subject to liquidity.</p>

Benchmark 8 – Withdrawal arrangements	Satisfied	
<p>RG 45.81</p> <p>The Responsible Entity should provide details on whether investors will be able to withdraw from a Fund. The Responsible Entity should disclose:</p> <ul style="list-style-type: none"> a) The maximum withdrawal period allowed under the constitution for the Fund b) Any significant risk factors or limitations that may affect the ability of investors to withdraw from the Fund (including factors that may prevent the Responsible Entity from meeting a promoted withdrawal period) c) The Responsible Entity’s approach to rollovers, including whether the default is that investments in the Fund are automatically rolled over d) If withdrawals from the Fund are funded from an external liquidity facility, the material terms of this facility including any rights the provider has to suspend or cancel the facility. 		<p>RG 45.81</p> <p>At present, no redemption or withdrawal from the Fund is possible except for approved Hardship applications; which upon approval eventuates to a redemption of units at the current net tangible asset value per unit.</p> <p>Please note that Balmain Trilogy has targeted a return of capital to unitholders over the course of the next two years subject to liquidity.</p>
<p>RG 45.82</p> <p>If the Fund promotes a fixed redemption unit price for investments, the Responsible Entity should clearly disclose the circumstances in which a lower amount may be payable, together with details of how that amount will be determined.</p>	Satisfied	<p>RG 45.82</p> <p>At present, only hardship redemptions or capital repayments from the Fund are available. Hardship redemptions are subject to RG 45.81, where a Unitholder may apply for a redemption of Units at current carrying value due to Hardship.</p>

Annexure A

A) CLASS OF ACTIVITY

TYPE	VALUE	% VALUE	NO.	% OF NO.
Commercial	\$33,955,684	11.0%	2	7.1%
Residential	\$101,061,504	32.9%	11	39.3%
Vacant Land	\$172,579,722	56.1%	15	53.6%
Total	\$307,596,910	100.0%	28	100.0%

B) GEOGRAPHIC REGION

REGION	VALUE	% VALUE	NO.	% OF NO.
NSW	\$17,184,763	5.6%	1	3.6%
QLD	\$151,625,937	49.3%	15	53.6%
VIC - Martha Cove	\$119,915,540	39.0%	11	39.3%
VIC - Other	\$18,870,670	6.1%	1	3.5%
Total	\$307,596,910	100.0%	28	100.0%

C) LOANS IN DEFAULT OR ARREARS

LOANS IN DEFAULT	LOAN VALUE	NO. OF LOANS	% OF PORTFOLIO (BY VALUE)
Mortgagee in Possession	\$53,116,214	10	17.3%
Receivers and Managers Appointed	\$247,407,650	15	80.4%
Loan in Default	\$1,004,326	2	0.3%
Borrower	\$6,068,720	1	2.0%
Total	307,596,910	28	100%

D) NATURE OF THE SECURITY FOR LOANS

NATURE OF SECURITY	LOAN VALUE	NO. OF LOANS
1st Ranking Mortgage	\$285,520,859	26
2nd Ranking Mortgage	\$22,076,051	2
Total	307,596,910	28

E) LARGEST BORROWER AND THE LARGEST 10 BORROWERS

LARGEST BORROWERS	LOAN VALUE	% OF LOAN PORTFOLIO
Top 10 Borrowers	\$231,592,870	75.2%
Largest Borrower	\$56,405,533	18.3%

F) UNDRAWN LOAN COMMITMENTS

Nil to report

G) MATURITY PROFILE OF ALL LOANS

LOANS IN DEFAULT	NO. OF LOANS	LOAN VALUE	% OF PORTFOLIO (BY VALUE)
Past due	27	\$301,528,190	98.0%
< 3 months	1	\$6,068,720	2.0%
Total	28	307,596,910	100.0%

H) LVR FOR LOANS IN PERCENTAGE RANGES

LVR RANGE	NO. OF LOANS	LOAN VALUE	% OF PORTFOLIO (BY VALUE)
Loans between 51%-60% of security value	2	27,039,114	8.8%
Loans between 61%-70% of security value	1	17,948,353	5.8%
Loans between 71%-80% of security value	3	23,341,192	7.6%
Loans between 81%-90% of security value	12	121,169,240	39.4%
Loans between 91%-100% of security value	10	118,099,011	38.4%
Total:	28	\$ 307,596,910	100.0%

I) INTEREST RATES ON LOANS, IN PERCENTAGE RANGES

	NO. OF LOANS	LOAN VALUE
9.0% -9.9%	27	301,528,190
13.2%	1	6,068,720
Total:	28	307,596,910

J) LOANS WHERE INTEREST HAS BEEN CAPITALISED

	NO. OF LOANS	LOAN VALUE
Interest has been capitalised	27	\$301,528,190
Payment in arrears	1	\$6,068,720
Total:	28	\$307,596,910

K) DERIVATIVES

Derivatives are not used in the Fund

L) NON LOAN ASSETS

OTHER ASSETS	VALUE
Real Property (Residential Unit)	464,624
Cash and Cash Equivalents (Inclusive of 3 cash accounts)	2,331,063
	\$2,795,687

* In the case of the RG45, the 28 loan files represent those loan files which have security remaining. The 30 June 2011 accounts state 30 loan files were represented, as it was a full list of all remaining loan files, including those that had no remaining security and are pending write-off