

31 August 2010

Dear Unitholder

Request to Convene a Meeting of Unitholders

Balmain Trilogy Investment Management Pty Ltd (Balmain Trilogy) is in receipt of another requisition to call a meeting of unitholders. The requisitioning members represent only 1 % of unitholders, and are essentially the same group who requisitioned Balmain Trilogy to include Resolution 3 of the Notice of Meeting & Explanatory Memorandum relating to the 1 September meeting.

As with the statement accompanying the previous requisition, the current statement is again misleading, confused and ill-informed in several material respects. Attached to this letter is a copy of their requisition together with a table which sets out Balmain Trilogy's preliminary response.

As you can see the statement proposes for 12 separate resolutions to be considered regarding changes to the Fund's constitution. These 12 resolutions have been listed in an ad hoc fashion, and in some instances are not only demonstrates a lack of understanding of mortgage funds, but also basic economics. Further they add no benefit to unitholders over what is already proposed by the New Strategy. In fact, their proposals, if implemented would have a detrimental impact on the operation of the Fund and are not in unitholders' best interests. In our opinion, the proposals put forward by these minority members are not representative of the wider unitholder community.

As their second requisition was received well after the Notice of Meeting for the 1 September meeting was issued, it was only possible to deal with their first requisition in the Notice and not their second. As such a separate meeting of unitholders will need to be held to consider the second requisition. Unfortunately, despite the flawed and non representative nature of these proposals, theoretically this minority group could continue to requisition meetings and waste significant resources of the Fund. The cost of holding a meeting in the Fund is substantial. The fact that within a period of less than two months they have already requisitioned 2 meetings should cause unitholders concern as it suggests disorganisation and a disregard for Fund resources.

Balmain Trilogy welcomes the input of unitholders in determining the future of the Fund, as evidenced by the Investor Committee and the substantial soundings which took place in developing the new Strategy. However, in opinion, this group is wasting Fund resources and as such we hope that the requisitionists will withdraw their requisition.

Yours sincerely



Rodger Bacon

Joint Chief Executive



Andrew Griffin

Joint Chief Executive

Balmain Trilogy's Preliminary Response

Minority Members Proposal 1

That the value of Member's Interests be re-affirmed as \$1.00.

Balmain Trilogy Comments

The proposal is misleading and nonsensical.

The value of units is determined by the value of the assets of the Fund. For example, the value of the underlying assets of the Fund as at 31 Dec 2009 means that the units were valued at \$0.47 as at that date.

Minority Members Proposal 2

That the Scheme be terminated on or before 30 June 2015 or on a date as soon as practicable thereafter

Balmain Trilogy Comments

The proposal adds no further benefit to unitholders over what is already proposed in the New Strategy.

BT is committed to the optimal realisation of assets which is anticipated to take up to 4 years (circa. October 2014). BT believes it is not in the best interest of unitholders to 'lock in' a date to terminate the Fund as may not be commercially viable in some circumstances.

The proposal will place arbitrary constraints on the operation of the Fund and is not in the best interest of unitholders.

Minority Members Proposal 3

That the manager shall make annual payments of not less than 5%, and not more than 10% of each member's equity

Balmain Trilogy Comments

The proposal adds no further benefit to unitholders over what is already proposed in the New Strategy

BT's New Strategy targets to return 71% of the Fund's assets by October 2010. The redemption program will commence in October 2010 with \$35m (8% of Assets) returned to unitholders. Further Bt's proposal gives unitholders the added benefit of choice.

Minority Members Proposal 4

That the manager shall disclose on the Scheme's website the details of the disposal of each asset (or part thereof), as well as details of each matter of litigation in which the Scheme, or the manager on behalf of the Scheme.

Balmain Trilogy Comments

BT will continue provide detailed information on the Fund's assets and litigation matters as soon as they can become publically available. However, BT will not publish any information that is commercially sensitive that could jeopardise the recovery of loan assets or hinder any litigation proceedings as that would be irresponsible and not in unitholders' best interests.

Minority Members Proposal 5

That the CBA facility shall be written down at an effective rate of \$1m per month, resulting in a reduction of no less than \$12m per financial

Balmain Trilogy Comments

BT has reached agreement with the CBA to renew the Fund's \$30m finance facility for further 2 years without any mandatory repayments throughout the term subject LVR covenants. This will allow for liquidity to be preserved and to meet the proposed redemption program, which remains at the heart of the New Strategy.

The proposal provides no further benefit to unitholders who wish to maximise their return of funds in the next 2 years. It also seems completely at odds with Minority Members Proposal 3.

Minority Members Proposal 6

That hardship payments be made to those members who qualify for hardship under ASIC's guidelines to the full extent of any qualifying member's equity

Balmain Trilogy Comments

The proposal adds no further benefit to unitholders over what is already proposed in the New Strategy.

The New Strategy already incorporates the implementation of a Hardship Policy in line with ASIC guidelines.

Minority Members Proposal 7

That payments from the Scheme are made in an ordered priority

Balmain Trilogy Comments

BT will continue make payments that a required under through its contractual obligations and to protect and maintain the value of the Fund's assets.

The proposal will place arbitrary constraints on the operation of the Fund and is not in the best interest of unitholders.

Minority Members Proposal 8

That the Manager cause an annual meeting be held

Balmain Trilogy Comments

BT will continue to inform unitholders of any progress made on the assets and litigation matters through regular publications and website announcements. Unitholders are able to ask questions via the Funds website and by contacting the BT Client Services team. The cost of holding an Annual General Meeting would exceed its benefit and weaken the liquidity position available to support the redemption program.

Minority Members Proposal 9

That the manager shall provide members with an interim mid-year financial report as at 31 December of each year, beginning 31 December 2010

Balmain Trilogy Comments

Balmain Trilogy will continue to provide and distribute semiannual financial reports to unitholders as has occurred since July 2009.

The proposal provides no further benefit to what is currently undertaken BT.

Minority Members Proposal 10

That the manager is to take such legal action/s as recommended by the legal report on behalf of the Scheme

Balmain Trilogy Comments

The proposal provides no further benefit to what is currently undertaken BT.

BT commissioned a legal review of the Fund and had identified specific parties that have been fully or partly at fault in causing the significant losses of the Fund. BT is pursuing the recommendation provided by its legal advisers. BT has imposed a performance fee cap of \$30m applies to all returns including payments made as a result of successful legal recoveries

Minority Members Proposal 11

That the manager shall not permit new offers nor new applications for investment in the Scheme

Balmain Trilogy Comments

The proposal adds no further benefit to unitholders over what is already proposed in the New Strategy.

Balmain Trilogy reaffirms its position that it will not allow for any new investment in the Fund.

Minority Members Proposal 12

Only distributions of capital be made to Members.

Balmain Trilogy Comments

This proposal provides no benefit to unitholders. Why shouldn't unitholders receive income distributions (if available) as well?

As proposed in the New Strategy, all net proceeds from the realisation of assets will be distributed to members through the redemption program.