

THE CEO'S REPORT

EXECUTIVE SUMMARY

We are very conscious of the need for unitholders to receive specific and detailed information in a timely manner in respect of the management of their Fund. However we respectfully ask you to understand the commercially sensitive nature of information relating to the Fund's assets. Were this information to be made publicly available it may impact on our ability to achieve optimal recoveries from those assets.

This Newsletter is an update on our progress in managing the Fund. It includes an outline of our proposed strategy for the Fund (the New Fund Strategy - see Page 2).

The New Fund Strategy has been developed having regard to feedback we have received from a broad range of unitholders and from the Investor Committee. The New Fund Strategy seeks to address unitholder requirements in respect of:

- **commencing regular payments** to all unitholders;
- achieving **optimal recoveries** from the assets of the Fund;
- enabling individual unitholders a **degree of choice** in their participation in the Fund; and,
- ensuring fair treatment of **recovery of losses from successful legal proceedings**.

Additionally this Newsletter addresses other matters that we know are important to all unitholders. We provide specific updates on the status of the Fund's loan from the CBA, the status of possible Legal Actions to recover Fund assets, an update on the current recoveries of the Fund's Assets and some Other Matters of importance.

Importantly we recognise that unitholders require certainty as to when these things will happen and confirm that we intend to hold a meeting of the unitholders of the Fund in June 2010 at which unitholders will be asked to approve a resolution to implement the New Fund Strategy. If this resolution is approved, the New Fund Strategy will be implemented immediately.

CONTENTS

Executive Summary	1
New Fund Strategy	2
Status of the Fund's loan from CBA?	3
Legal Actions	3
Assets	4
Other matters	6
Unitholder Q&A	7

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INVESTOR COMMITTEE - MEETING #2 REPORT

The Pacific First Mortgage Fund (PFMF) Investor Committee (IC) met for the second time in Sydney on Friday, 5 March. The meeting openly discussed issues relevant to the interests of PFMF investors as a whole with the Responsible Entity (RE) and the Asset Manager (AM). These included updates on legal proceedings, hardship payments and the future strategy of the fund.

NEW FUND STRATEGY

In the last three years the nature of the Fund's assets has changed dramatically. When you first invested in the Fund regular distributions to unitholders were still being paid as were redemptions. However, the Fund has incurred losses of such significance under the previous responsible entity's management that it is unlikely in the extreme that the Fund can ever return to 'normal' operations. We are now presiding over a 'salvage' operation to return your investment.

Your units are currently independently assessed as being worth \$0.47 each and not the \$1.00 that you paid for them. It is our job to improve on the current figure.

As manager we are also acutely aware that the 12,000 investors in the Fund have different imperatives. Some unitholders require regular payments, some require a return of their remaining investment as quickly as possible whilst others are focused on preserving as much of their original capital as possible even if this takes time. Other unitholders want a combination of these three things.

We are particularly aware that because of these differing views many unitholders want a degree of personal choice as to their ongoing investment in the Fund. The New Fund Strategy seeks to provide unitholders with this degree of choice. Additionally we need to ensure that unitholders seeking to exit the Fund more quickly are not unfairly disadvantaged.

The New Fund Strategy seeks to address unitholder requirements given the change in nature of the Fund and will have four main elements:

Regular Payment

EVERY UNITHOLDER to receive a regular payment every six months.

Asset Management

Balmain Trilogy will seek to **OPTIMISE THE RECOVERY OF FUND ASSETS** including, where appropriate, careful, staged development of selected, unimproved assets to maximise returns to unitholders.

Accelerated Payment

Every unitholder **TO BE GIVEN THE CHOICE** of either:

- receiving further payments to exit the Fund more quickly; or,
- not receiving further payments but remain in the Fund and participate in potential upside from the asset recovery process.

Protection of Entitlement

Every unitholder to be entitled to their **RESPECTIVE SHARE OF ANY FUND RECOVERIES FROM SUCCESSFUL LEGAL ACTIONS**. This entitlement is retained by every unitholder whether or not a unitholder receives an Accelerated Payment (i.e. a unitholder may have no units left at all but still be entitled to their share of legal recoveries).

The detail of the New Fund Strategy includes additional elements which we respectfully suggest will be of further benefit to the unitholders. The details of the New Fund Strategy will be set out in a Notice of Meeting and Explanatory Memorandum to be sent to all unitholders.

In addition to the unitholders' vote the New Fund Strategy will also require the continuing support of the Funds lender, CBA. The next following section deals with the status of the Fund's borrowings.

STATUS OF THE FUND'S LOAN (FROM CBA)

In this section, for the sake of clarity, we have adopted a Question & Answer format as follows:

What is the outstanding debt to CBA?

The debt to CBA was \$91.8m when we became manager of the Fund in July 2009. As at 9 April 2010 this debt has been reduced by \$52.0m to the **current balance of \$39.8m**. This reduction has been achieved by the sale of assets as part of the Fund's asset realisation programme. For some examples of the type of work we have carried out to realise Assets please see "Assets" on Page 4. We remain on track to reduce the outstanding loan to CBA to \$30.0m by the end of June as is required by the Facility Agreement with CBA.

Will the CBA allow payments to unitholders?

At this stage, provided that the debt is reduced to \$30.0m by June 2010 and the Fund's loan is otherwise in good order, we believe that CBA will be amenable to the commencement of payments to unitholders. We believe that these two requirements can be satisfied which will enable payments to unitholders to commence in accordance with the New Fund Strategy early in the new financial year.

LEGAL ACTIONS

In this section, for the sake of clarity, we have again adopted a Question & Answer format as follows:

What is happening?

The Fund will shortly be seeking to conduct public examinations ('**Examinations**') of the affairs of parties that have had historical dealings with the Fund and whom we believe caused detriment to the value of the Fund. Once these Examinations are complete we will pursue all actions that we believe are commercially viable.

Who will the Fund sue?

At this stage we cannot disclose likely defendants but we do believe that actions will exist against parties who have either adequate financial capacity, or adequate insurance, to satisfy any judgement in favour of the Fund.

How much will unitholders get?

It is not possible to predict either whether we will be successful or what level of success will be achieved. We will, however, not pursue any action unless, with due regard to the advice of our lawyers, we believe that the cost-benefit of such action is compelling and will benefit the Fund and unitholders.

If the Fund is successful which Unitholders will share in these proceeds?

All unitholders registered as at the date of the next unitholders' meeting (in June 2010) will proportionally share in the proceeds of any successful legal actions. This entitlement is **not affected** by you receiving either a Regular or Accelerated Payment in accordance with the New Fund Strategy.

When will this start?

Our legal representatives are currently drafting the applications for leave to conduct Examinations. This will be lodged with the Courts during April-May 2010.

CENTRELINK ASSISTANCE FOR PFMF INVESTORS

There may be some relief for a number of PFMF unitholders suffering from financial hardship that are currently receiving a pension or allowance from Centrelink. For PFMF investors who are in financial hardship and are paid under the assets test, Centrelink may be able to assist through the assets hardship provisions of the Social Security legislation.

If eligible, Centrelink may remove all or part of your PFMF capital investment from assessment, and then recalculate your entitlement to a pension or allowance. In most cases this will result in a higher rate of payment.

Information regarding eligibility to the asset hardship provisions can be found at <http://www.centrelink.gov.au/internet/internet.nsf/publications/fis013.htm>

Please note that if you need assistance on this matter, you must contact Centrelink rather than BalmainTRILOGY.

ASSETS

The individual strategies for optimal asset recoveries have been developed and are now in place. Where appropriate implementation is well underway. Significant success has been achieved already which has enabled the repayment to CBA described on Page 3. This was achieved without resorting to any fire-sales.

The following are three case Studies of specific Fund assets and describe the type of work currently being undertaken by Balmain Trilogy as it seeks to maximise your returns:



Asset 11

Asset 22 (as per the Asset Review distributed to all unitholders and still available on the Balmain Trilogy website)

This Asset initially represented a 80% complete development approved for 106 units. Initially the Fund sought interest from purchasers of the site 'as is' but the best offer was \$13M. The value of the site was detrimentally affected by numerous circumstances including:

- The building had been left derelict for over two years;
- There was considerable water damage (the three lower basement levels were completely flooded); and
- It was unlikely that any builder would complete the building works and provide the required levels of builder's warranties to any eventual purchaser.

We decided that a sale 'as is' was neither appropriate nor adequate and we embarked upon a process to improve the realisation from this Asset. Over the course of the next six months the following was achieved to facilitate an improved recovery from the asset:

- The building was structurally evaluated and money expended on rectifying the structural integrity of the building;
- The water damage due to flooding was rectified;
- Planning Approval for an additional level was obtained to increase the number of units to 114;
- A contract with a builder was negotiated that allowed for the building to be completed with the benefit of full warranties from the builder as to the adequacy of the entire building being able to be provided to any purchaser; and
- We identified a potential purchaser of the completed development.

As a result of this asset recovery strategy a pre-sale of the completed development was completed to a quasi government authority. The agreement should result in a 'net' recovery to the Fund in excess of \$20M.

Consequently the strategy resulted in an improvement of some \$7M in the Fund's asset position over the initial 'fire-sale' alternative. Balmain Trilogy had initially impaired this asset based on this level of development work-out hence there was no material impact on the value of the Fund.

Asset 11 (as per the Asset Review distributed to all unitholders and still available on the Balmain Trilogy website)

This Asset initially represented a 90% complete development approved for 52 units over 14 levels. As with Asset 22, the Fund initially sought interest from purchasers of the site on an 'as is' basis. No acceptable offers were forthcoming with best indications of value at around \$20.0m. This value affected by numerous circumstances including:

- The building had been left unattended for over two years;
- There was considerable building rectification work required;
- There was no strata plan in place; and,
- There were considerable outstanding statutory obligations.

We decided that the optimal realisation strategy was to complete the development, strata subdivide the resulting apartments and market them for sale. Much of this work occurred early on in our tenure as Fund manager. We have been selling the completed apartments since February 2010 and to date we have achieved over 80% sales success. Gross sales are currently estimated at \$28.0m.

Consequently the strategy resulted in an improvement of some \$8.0m in the Fund's net asset position over the initial 'fire-sale' alternative. Balmain Trilogy had initially impaired this asset based on this level of development work-out hence there was no material impact on the value of the Fund.



Asset 22



Asset 22

Asset 10 (as per the Asset Review distributed to all unitholders and still available on the Balmain Trilogy website)

Contracts for the sale of this Asset were exchanged on 20 August 2009. These contracts settled on 29 March 2010. The sale was the subject of a Press Release on 1 April 2010 which remains available on the Balmain Trilogy website.

The contracts of sale were originally due to settle in December 2009. Unfortunately the purchaser was not able to settle at this time due to a number of reasons relating to the purchaser's funding of the acquisition.

Following an approach from the purchaser to resolve their funding issues the Fund, together with the senior co-lender Fortress, agreed to extend a loan facility to the purchaser to enable settlement to proceed. As a consequence the Fund and Fortress advanced approximately 50% of the contract price to the purchaser (as a new loan) to enable settlement to occur. The Funds proportion of this new loan was approximately 29% (\$12.0m) and the loan is for a short term and interest is payable monthly. Consequently the Fund recovered a net \$26m in cash from the sale of this asset.

We do not believe that we have any general mandate from unitholders to advance monies in respect of new loans. We are very conscious of the need to return money to investors rather than lending it to new borrowers. The circumstances of this transaction, however, dictated that this advance be made. The alternative was to risk that the sale did not proceed and face the reality of returning to the market to try and sell the Asset again. Having taken the advice of independent experts we were of the informed opinion that such a resale would have yielded an inferior result to the Fund and its unitholders.

The option of retaining the site for a future 'development work-out' was not available as this was not acceptable to our co-lender, Fortress.

We were, and remain, of the opinion that the facilitation of the completion of the sale was in the best interests of the unitholders and provided by far the best possible outcome for the Fund. We are comfortable that the purchaser will comply with its obligations under the loan agreement. Should, however, any issues arise with the borrower's compliance with the terms of the loan, the Fund's security position is strong and the loan should be fully recoverable.

To protect unitholders funds it may be necessary from time to time to lend money to facilitate a sale (as above) or to acquire limited additional property interests which are strategic to the realisation of an existing asset.



Asset 11

HOW DO I CONTACT THE INVESTOR COMMITTEE?

BalmainTRILOGY encourages on going participation in the Investor Committee. If you have any questions or comments that you would like to be raised by the Investor Committee Members at a committee meeting, please forward to the following email address: investorcommittee@pfmf.com.au or postal address PFMF Investor Committee GPOBox 1648 Brisbane QLD 4001.

The Investor Committee Members will review these questions and raise them at a subsequent meeting, if not before hand. The Committee at its discretion will respond to any relevant questions raised.

OTHER MATTERS

Interim Financial Accounts

The Interim Financial Report (Accounts) for the six months ended 31 December 2009 for the Pacific First Mortgage Fund (Fund) have now been completed.

The Fund's auditors, KPMG, have reviewed the Accounts and have verified that the Accounts have been prepared in accordance with applicable accounting standards. As required, the Accounts have been lodged with ASIC.

Whilst there is no requirement for the Accounts to be made publically available we believe that it is in the interests of all unitholders to be advised of a summary of the Accounts.

As at 31 December 2009 the gross assets of the Fund were \$499.6m (a decrease of \$21.4m from 30 June 2009). As at this same date the net assets of the Fund were \$414.2m (a decrease of \$11.9m from 30 June 2009). The net tangible assets attributable to each unit was \$0.47 (a decrease of \$0.01 from 30 June 2009).

The net assets calculation takes into account the \$83.3m owed to the Commonwealth Bank of Australia (CBA) as at 31 December 2009 in accordance with the Facility Agreement between the Fund and the CBA. Since 31 December 2009 the Fund has repaid a further \$43.5m to reduce the outstanding loan to \$39.8m. The Fund continues to repay this debt and we believe that the outstanding loan will be reduced to \$30.0m by June 2010 which is in accordance with the Facility Agreement.

The Accounts properly disclose contingencies for current litigation. At this stage, prior to the imminent commencement of legal recovery actions against various third parties, the Accounts make no allowance for either the cost of such recovery actions nor any potential recoveries that may be achieved to the benefit of the Fund.

No units were redeemed and no distributions were made during the half year ending 31 December 2009.

Hardship Redemptions

We are currently completing a Hardship Redemption Policy which requires a number of definitive tests of eligibility. It will then require the approval of ASIC. Based on the approval of unitholder payments by CBA, we expect the approved programme to then commence at the same time as the implementation of the New Fund Strategy.

UNITHOLDER Q&A

What is the current situation in relation to Hardship?

BalmainTRILOGY has made progress in developing a Hardship Policy for PFMF investors. There are a number of steps required in the process of building a Hardship Policy. These include:

- Approval of the Hardship Policy by Australian Securities and Investment Commission (ASIC); and
- The availability of funding within the PFMF to enable BalmainTRILOGY to instigate financial hardship payments.

BalmainTRILOGY anticipates lodgement of the proposed Hardship Policy with ASIC in the near future.

Investors should note that the provision of a Hardship redemption facility will only be available to those investors who find themselves in particularly difficult financial circumstances and have no other sources of income or capital to meet their essential expenditure requirements as defined in the Hardship Policy.

The various applications forms and eligibility requirements for the scheme will be available from BalmainTRILOGY in hardcopy and from the BalmainTRILOGY website.

Now that the property market is regaining some strength following the upset of the Global Financial Crisis, why are the impairments in the Fund still so large?

The large impairments of the Fund are not solely a result of the global financial crisis (GFC). The GFC was a trigger that brought to light a myriad of discrepancies relating to the Fund resulting from less than desirable lending practices by the previous manager. These included a number of related or associated party loans.

The further impairment for the half year to 31 December 2009 can be largely attributed to the 'Longer Term' and Martha Cove assets the Fund holds. Assets of this nature which are yet to be developed out continue to be affected and thus realization is further deferred. As these assets are not income producing and not providing any immediate return, values become adversely affected. Notwithstanding this, these assets as indicated previously by Joint CEO Andrew Griffin in the Asset Review are capable of providing potential uplift to the Fund by proper development management. A number of other assets in the Fund continue to perform in line with our original expectations.

Why are the fees on my last Periodic Statement (30 June 2009) so high?

The management fees described on your periodic statement are those charged by City Pacific and predate the appointment of BalmainTRILOGY. The BalmainTRILOGY fees are substantially less at 1.5%. On your next Periodic Statement, you will notice a substantial fall in this amount.

How do I contact the Investor Committee and when is their next meeting?

BalmainTRILOGY encourages on going participation within the Investor Committee. If you have any questions or comments that you would like to be raised by the Investor Committee Members at a committee meeting, please forward to the following email address: investorcommittee@pfmf.com.au

The Investor Committee Members will review these questions and raise them at a subsequent meeting, if not beforehand. The Committee at its discretion will respond to any relevant questions raised.

The next Investor Committee meeting will be held on Friday, 16 April 2010.

When will we have online access to view our account details?

BalmainTRILOGY is working closely with the PFMF registry manager, Computershare, to provide investors with direct online access to their account information. This link known as *Investorweb* when available will be accessed via the BalmainTRILOGY website.

PFMF *Investorweb* will provide investors with immediate access to their current PFMF investment account details, making it easier and quicker to access information. BalmainTRILOGY believe that this enhancement will assist investors with the ongoing management of specific account details including investor's preferred mode of communication, postal and banking details.

Information available through the PFMF *Investorweb* portal includes; an investment detail summary section, account and contact details, recent transaction history as well as forms and documents available for download from the BalmainTRILOGY website.

The *Investorweb* access is anticipated to be operational via the BalmainTRILOGY website by the end of May 2010.

The logo for pfmfnews is displayed in a white, lowercase, sans-serif font against a dark brown background with a repeating pattern of intricate, circular, mandala-like designs.

balmainTRIOLOGY

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