

05 August 2010

Dear Unitholder

The Meeting of Unitholders

Attached are very important documents relating to the future of your investment in the Pacific First Mortgage Fund (**Fund**). Specifically these documents relate to a proposed meeting of Unitholders to consider a New Strategy for the Fund that is proposed by Balmain Trilogy as the investment manager of the Fund. These documents are:

- a Notice of Meeting (with an accompanying Explanatory Memorandum) in respect of a meeting of Unitholders of the Fund to be held on 1 September 2010 to vote on the New Strategy;
- an independent expert report prepared by PKF which considers the New Strategy;
- a letter from the members of the Investor Committee; and
- Proxy Form relating to the meeting.

Unitholders will be asked to consider three resolutions:

Resolution 1: Amending the Fund's Constitution to enable the New Strategy to be initiated, including a program of redemptions.

Resolution 2: Unitholders to vote on their preference for Current Unit Value or Issue Price as the basis of redemptions.

Resolution 3: Amending the Fund's Constitution in accordance with a resolution proposed by a minority group of Unitholders.

We appreciate we have provided you with a large amount of information for your consideration. This is as a result of BalmainTRIOLOGY's desire to provide you with sufficient information to make an informed decision and also to comply with the legal complexities associated with the enclosed Notice of Meeting and resolutions. We strongly suggest that you review all material provided and seek independent professional financial advice if necessary.

SOME IMPORTANT FACTS ABOUT THE *HISTORY OF THE FUND*

Matter	Detail
Management Fees Paid to Responsible Entity	2008: \$30.0m to City Pacific Limited (CPL)
	2009: \$25.1m to CPL;
	2010: \$8.3m to Trilogy Funds Management Limited (Trilogy)
Loans to Related Parties of Responsible Entity:	2008: \$197.4m to CPL and its related entities
	2009: \$78.4m to CPL and its related entities
	2010: Nil

Balance of the CBA Facility	2008:	\$129.6m (under CPL's management)
	2009:	\$91.0m (under CPL's management)
	Current:	\$30.0m (under Trilogy's management)
Cash Balance of the Fund	2008:	\$4.0m (under CPL's management)
	2009:	\$9.3m (under CPL's management)
	Current:	\$42.2m (under Trilogy's management)

SOME IMPORTANT FACTS ABOUT PROGRESS TO DATE

Since the appointment of Balmain Trilogy as investment manager to the Fund in July 2009, we have successfully completed the following:

1. An extensive legal and financial review of all Fund assets and liabilities;
2. A loan by loan analysis of all assets in the Fund;
3. Establishment of the Investor Committee and facilitated open investor forums where members openly discussed issues relevant to the Fund;
4. Ensured that all Fund assets were fully under control and being managed in a productive manner;
5. Vigorously pursued borrowers including related parties of the previous manager (City Pacific Limited) for all amounts owed to the Fund;
6. Managed the process of procurement of rezoning of land and development approvals using specialists consultants;
7. Rectifying significant legal and/or physical defects in the assets of Fund;
8. Steadily realising those Fund assets where a fair market value could be obtained;
9. Identifying specific Fund assets that can be developed to significantly increase value of the Fund;
10. Pursuing litigation action to recover losses that have been caused by third parties;
11. Generated total "cash" for the Fund exceeding \$132 million which was principally used to:
 - Reduce the Fund's finance facility with the CBA from \$91.8 million to \$30 million; and
 - Increase the Fund's cash position from \$9 million to \$42.2 million.

SOME IMPORTANT FACTS ABOUT THE FUTURE OF THE FUND

As further described in the Notice of Meeting and Explanatory Memorandum we summarise our collective future as follows:

1. The Fund will not re-open to new investment. The Assets of the Fund are to be realised in an **optimal** fashion and the proceeds returned to Unitholders;
2. We advise that the optimal realisation strategy involves the development of a limited number of the Assets;
3. Trilogy and Balmain Trilogy are prepared to undertake this optimal realisation strategy and set out the details of the New Strategy in the Notice of Meeting and Explanatory Memorandum;

4. Trilogy proposes to reduce its management fee and replace it, in part, with a performance fee which will only be of value to Trilogy if Unitholders are returned not less than \$415m PLUS indexation on that amount. This is to better align the goals of Trilogy and all Unitholders;
5. Recoveries from legal proceedings may be many years off. Existing Unitholders should have their rights to their share in these recoveries (if they occur). Even if they redeem their ordinary units in the meantime;
6. Implementation of a structured Redemption Program to enable Unitholders to access portions of their investment straight away and on a regular and transparent basis during the course of the Asset sale process. Balmain Trilogy is targeting to return \$295 million of funds to Unitholders by October 2012;
7. Hardship payments must commence soon;
8. Unitholders should be given the greatest possible choice as to their future investment in the Fund; and,
9. The Meeting will allow you to make these choices and we **RECOMMEND** that you vote as follows:
 - in **FAVOUR** of **Resolution 1**;
 - in **FAVOUR** of the **Current Value Redemption Facility** in **Resolution 2**;
 - **AGAINST** **Resolution 3**.

In closing, and for your information and clarification, the '**Action and Outcomes**' diagrams on the reverse side of this letter may be of assistance to you.

If you have any questions please call BalmainTRILOGY Client Services on 1800 194 500.

Yours sincerely



Rodger Bacon

Joint Chief Executive



Andrew Griffin

Joint Chief Executive

Actions and Outcomes

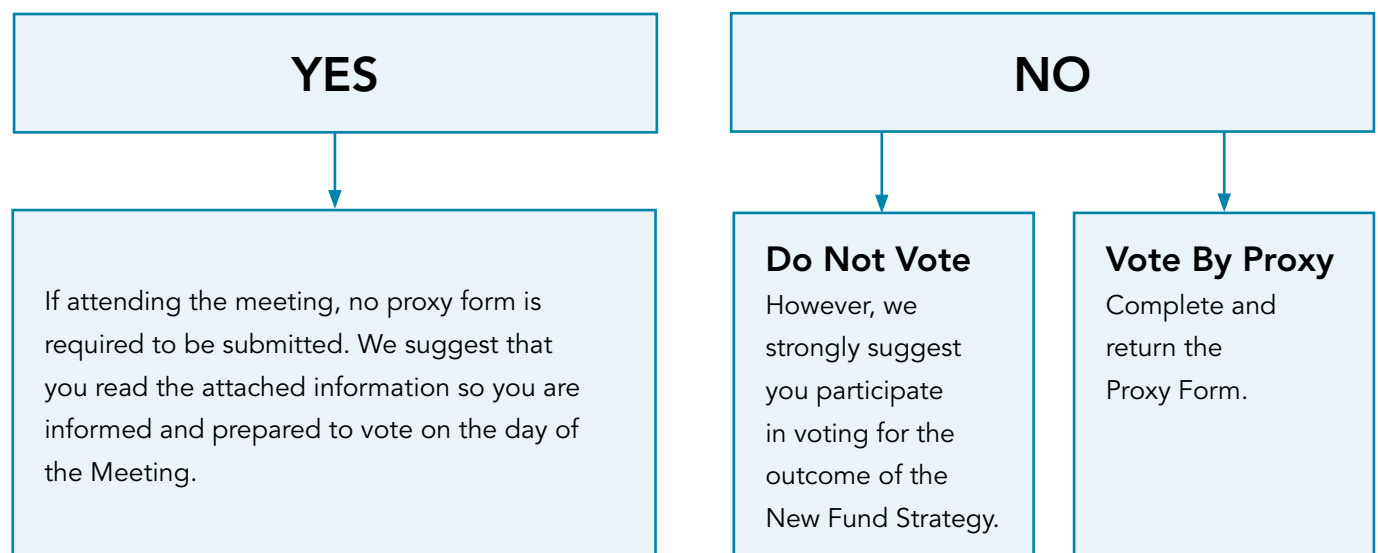
YOUR VOTE IS IMPORTANT

In summary, there are three options for you to consider:

- Option 1** You can **ATTEND** the Meeting and vote in person;
- Option 2** You can **NOT ATTEND** the Meeting and **VOTE** by Proxy
- Option 3** You can **NOT ATTEND** the Meeting and **NOT VOTE** by Proxy

The following diagrams provide only initial summaries of your choices and the potential outcomes and are not a substitute for review of all the enclosed documentation which is considered essential.

WILL YOU BE ATTENDING THE MEETING IN BRISBANE ON 1 SEPTEMBER 2010?



WHAT WILL YOUR VOTE MEAN?

RESOLUTION 1

IF RESOLUTION 1 IS PASSED.

The New Strategy commences and:

- the Assets will be optimally realised with no fire sales and limited development of some Assets;
- a new fee structure will be introduced which more closely aligns the interests of the Manager and the Unitholders;
- a new redemption facility will be introduced to facilitate the return of Unitholders' capital;
- Unitholders' rights to share in any recoveries from litigation are preserved; and,
- a Hardship Redemption Policy will be introduced.

As the New Strategy provides the optimal realisation strategy for the Assets BalmainTRILOGY **RECOMMENDS** this option.

IF RESOLUTION 1 IS NOT PASSED.

BalmainTRILOGY would then need to consider other alternatives for the Fund which may include a 'wind up'. Such a 'wind up' would not allow individual Unitholders to determine for themselves the extent of their ongoing involvement in the Fund and would see a faster, but not optimal, realisation of Assets. There will be no Resolution 2 but you will still be asked to vote on Resolution 3.

RESOLUTION 2 (ONLY OCCURS IF RESOLUTION 1 IS PASSED)

IF MEMBERS CHOOSE A CURRENT VALUE REDEMPTION FACILITY

Allows Unitholders maximum possible choice. By accepting (or not) all redemption offers each Unitholder can choose to accelerate (or delay) their withdrawals from the Fund. If you wish to vote for the Current Value Redemption facility (Recommended) this will give Unitholders an individual choice as to whether they wish to accelerate or otherwise their exit from the Fund. As this option provides the greatest flexibility for Unitholders BalmainTRILOGY **RECOMMENDS** this option.

IF MEMBERS CHOOSE AN ISSUE PRICE VALUE REDEMPTION FACILITY

Does not allow Unitholders choice and all Unitholders exit the Fund at the same rate. You will not have a choice should you wish to accelerate (or delay) your exit from the Fund. As this option provides less flexibility for Unitholders BalmainTRILOGY **DOES NOT** recommend this option.

RESOLUTION 3 IS PASSED

AND RESOLUTION 1 IS PASSED.

The New Strategy will be implemented and, in addition to the performance fee, Trilogy will be entitled to receive a Base Fee of 1.25% per annum of the net asset value of the Fund (as opposed to 1% per annum of the gross asset value of the Fund, as is proposed by the New Strategy). However, to ensure Members are not adversely affected by the passing of resolution 3, Trilogy will charge a base fee equal to the lesser of 1.0% per annum of gross assets of the Fund and 1.25% per annum of net assets of the Fund. BalmainTRILOGY **DOES NOT** recommend a vote in favour of Resolution 3.

AND RESOLUTION 1 IS NOT PASSED.

The New Strategy will not be adopted and the Fund's Constitution will be amended such that Trilogy's Base Fee will be changed from 1.5% per annum of the gross asset value of the Fund to 1.25% per annum of the net asset value of the Fund. If Resolution 1 is not approved Balmain Trilogy would then need to consider other alternatives for the Fund which may include a 'wind up'. Such a 'wind up' would not allow individual Unitholders to determine for themselves the extent of their ongoing involvement in the Fund and would see a faster, but not optimal, realisation of Assets.

BalmainTrilogy **RECOMMENDS** a vote in favour of **Resolution 1** and **DOES NOT** recommend a vote in favour of **Resolution 3**.