

# Premium Income Fund

## Investor Update: 28 October 2008



Dear Investor,

The financial services industry is experiencing a most difficult period. The All Ordinaries index has dropped by 28.15% since 1 July 2008, with almost half of that decrease occurring in the 2 weeks since our general meeting of unitholders was held on 15 October 2008.

The global financial crisis has seen the federal government take extraordinary steps to attempt to stabilise the nation's financial system, including the unprecedented step of guaranteeing all bank deposits.

In response to these measures, all Australian mortgage funds have experienced great difficulties and many are frozen. It seems that an unintended consequence of the announcement is the creation of concerns amongst investors about the security of income investments not covered by the federal government guarantee. There is currently a combined \$22 billion of funds frozen in the mortgage fund sector in Australia.

Historically, mortgage funds have provided investors and borrowers with competitive alternatives to traditional lenders. Recent market events have seen this change. These fund managers would have typically been the logical place for borrowers from the Premium Income Fund to seek to refinance once their loan term had come to an end.

The availability of credit has tightened and this had the effect of purchasers of the underlying assets from the Premium Income Fund, or from the Fund's borrowers being unable to raise the required finance to complete the transactions.

The 3 settlements planned for October 2008 with planned realisations of over \$25 million have failed to settle. Consequently the Premium Income Fund debt remains at \$9.5 million and the Fund is unable to pay an October distribution.

### Asset realisations for the period 2 May 2008 to 24 October 2008

The following assets have been realised between 2 May 2008 and 24 October 2008.

	Estimated Realisable Value at 31 May 2008	Actual Realisation
<b>Mortgages</b>		
Hastings Point NSW (refinance)	\$14 million	\$12.659 million
Sylvania NSW	\$19.682 million	\$20.018 million
Creswick VIC (partial sale of underlying assets)	\$2.434 million	\$2.434 million
Brooklyn West VIC	\$0.5 million	\$0.549 million
St Leonards NSW	\$8 million	\$8 million
<b>Asset backed securities</b>		
Sydney based company (partial realisation of underlying assets)	\$2 million	\$2 million
Living and Leisure Australia Trust loan (partial realisation)	\$10 million	\$10 million
Diversified trust	\$10.084 million	\$10.2 million
Property Fund	\$17 million	\$17 million
Cash	\$15.417 million	\$15.417 million
<b>Total</b>	<b>\$99.117 million</b>	<b>\$98.277 million</b>

Wellington continues to work closely with each borrower to facilitate the repayment of their finance facilities in this difficult financial market.

In circumstances where the borrowers are ultimately unable to repay, the Premium Income Fund has first ranking security over these assets and will take appropriate action to ensure Unitholder's funds are secured against the asset by becoming mortgagee in possession.

Wellington remains focussed on orderly asset management and realisation to enable cash payments to be made to Unitholders.

### **Bond Street Custodians Limited – Federal Court Proceedings**

As notified to Unitholders and the market on Friday 24 October 2008, Bond Street Custodians Limited filed a claim against Wellington Investment Management Limited on 16 October 2008 being the day after our general meeting for \$16.254 million in relation to a redemption request for 16.254 million units in the Wholesale Premium Income Fund which was lodged on 21 January 2008. This was shortly prior to the suspension of redemptions.

Wellington Investment Management Limited intends to vigorously defend the claim on behalf of all Unitholders.

The underlying Unitholders of the 16.254 million units are clients of Avenue Capital Management Limited ('Avenue'), a financial planning organisation.

Paul Manka and Michael Hiscock were members of the board of Avenue at the time the redemption request was lodged. Paul Manka was a director of MFS Limited at that time, and is now Chairman. Michael Hiscock was a director of MFS Limited until 16 January 2008. Paul Manka resigned from the board of Avenue on 4 February 2008, and Michael Hiscock on 4 June 2008.

The legal action is currently scheduled to be before the Court on 14 November 2008.

### **Octaviar Limited – Support Facility and Supreme Court proceedings**

The first meetings of creditors of Octaviar Limited and four of its subsidiaries, including Octaviar Administration Pty Ltd were held on 24 September 2008.

A further creditors meeting is due to be held by 19 December 2008. The board of Wellington is in continued discussions with the administrator with a view to recovery of the \$50 million Support Facility and \$147.5 million the subject of legal proceedings before the Supreme Court of Queensland.

### **October cash payment**

The first instalment of the cash payment was scheduled to be paid by the end of October 2008.

The board of Wellington Capital Limited has resolved that in view of the extraordinary market instability and the current inability of borrowers of the Premium Income Fund to refinance their debt facilities away from the Premium Income Fund, cash payments to investors cannot proceed until there is more certainty.

It is a very difficult and uncertain time, and the board is aware of and concerned about your economic hardship. I assure you that the team at Wellington is working hard to ensure the value of Unitholders' investment in the Premium Income Fund is maximised.

Wellington, as you are aware, will not receive any management fees from the Premium Income Fund until after cash payments totalling 3 cents per Unit have been made to all Unitholders.

### **For further information please contact:**

Jenny Hutson  
Chairperson  
Wellington Capital Limited  
as responsible entity of the Premium Income Fund  
ACN 114 248 458 AFSL 291 562

Phone: 1300 854 885  
Email: [investorrelations@newpif.com.au](mailto:investorrelations@newpif.com.au)

