

# Premium Income Fund

Investor Update: 11 December 2008



## Overview

Wellington has been managing the Fund assets since 2 May 2008. Key financial events during the last 7.5 months include:

- ✿ debt reduced by \$94.05 million from \$100 million on 2 May 2008 to \$5.95 million on 10 December 2008;
- ✿ asset realisations of \$115.5 million;
- ✿ the assets realised have delivered \$115.5 million as compared with the estimated realisable value of these assets of \$118.9 million. This is 97% of the estimated realisable value for these particular assets as assessed when calculating the 45 cent per unit net asset backing
- ✿ fund restructure and listing in October 2008

## Source and application of funds

Source	
Realisation of assets	\$115.5 million
Application of funds	
Debt reduction	\$94.05 million
Further advances to satisfy contractual obligations to borrowers in the commercial loan portfolio	\$10.5 million
Costs of operating the Fund including: <ul style="list-style-type: none"><li>✿ interest and borrowing costs on outstanding debt,</li><li>✿ custody fees,</li><li>✿ registry costs,</li><li>✿ legal fees,</li><li>✿ insurance,</li><li>✿ audit,</li><li>✿ asset disposal fees</li></ul> (no management fees have been paid to or accrued by Wellington)	\$10.95 million
<b>Total</b>	<b>\$115.5 million</b>



## The current environment

Historically, mortgage funds have provided investors and borrowers with competitive alternatives to traditional lenders. Recent market events have seen this change drastically. These alternative fund managers have typically been the logical place for borrowers from the 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 Fund and the Fund's borrowers being unable to raise the required finance to complete the transactions.

Market commentators describe the current financial environment in these terms:

*'What initially seemed to start as a series of sub-prime mortgage defaults affecting the mark to market capital value of investments and mortgages 15 months ago, has escalated into the deepest fiscal crisis seen in this generation. This financial wave has washed away the 'value' created by synthetic financial instruments, and has swept through the international markets, unravelling confidence in all systems including the banks in well capitalised G10 nations.*

*Australia's systems have proved vulnerable to the chaos where fundamental value and market sentiment have completely decoupled.'*<sup>1</sup>

The consequence of the unforeseeable financial turmoil on the Fund has been considerable. Borrowers have defaulted and purchasers of assets have been unable to settle on time (or at all) in many instances.

## Debt reduction

On 28 November 2008, the Premium Income Fund was granted an extension to repay its remaining debt of \$8.1 million by 19 December 2008.

Wellington advises that the current debt is \$5.95 million and is scheduled to be repaid by 19 December 2008. Contractual arrangements with anticipated realisations exceeding \$5.95 million are scheduled to occur by 19 December 2008. Repayment of the debt will depend on scheduled contracts completing on time.

## Cash payments

Wellington Capital as responsible entity for the Fund anticipated in its correspondence to you of 18 August 2008 being in a position to pay 3 cents per unit to all Unitholders by 24 December 2008. At that time, discussions with borrowers in relation to loan repayments scheduled to be made before 24 December 2008 and discussions with the Fund's financier supported the view that realisations would significantly exceed the funds required to discharge the outstanding debt facility and make the anticipated cash distributions.

Unfortunately the unforeseeable financial turmoil has adversely impacted the Fund's realisations. Market conditions have deteriorated significantly since the Fund meeting held on 15 October 2008. An independent research house reports that since that date,

*'at least 47 frozen vehicles across the property funds space comprising \$27.9 billion of assets affecting up to 142,000 investments has occurred. The last pressure applied is obviously that of the broader scramble for cash or its perceived equivalent culminating in the inevitable investor reaction to the federal government's bank guarantee being to transfer funds from those not subject to the guarantee to those that are.*

*Borrowers left searching for finance at the widespread collapse of alternative lenders have been subsequently subjected to stricter lending criteria with many struggling to obtain new finance which in turn causes them to enter into difficulties and have to dispose of assets and/or partly completed*



*projects in the case of developers. The ultimate consequence is that sales of assets in an already softening market as debts are called up and borrowers liquidate assets to meet repayments.<sup>1</sup>*

### Strategy for cash payments

Wellington Capital has approached other debt providers to explore the possibility of funding the currently anticipated cash payment with debt. Finance is available, but on terms that are not in the opinion of the Board acceptable. Further, the Board is of the view that it is prudent for the Fund at this time to reduce the debt to zero and defer cash payments until such time as it has cash at bank from the realisation of its underlying assets.

The Board is very conscious of and concerned about the economic hardship that the Fund's current position is causing for Unitholders. The team at Wellington continues to pursue all possible value enhancing avenues to ensure that Unitholders' investment in the Fund is maximised.

The consequence is that cash payments cannot proceed until there is more certainty and cash available from asset realisations. The timing of this is uncertain.

### Management fees

Wellington as you are aware undertook not to charge the Premium Income Fund management fees until after cash payments totalling 3 cents per unit have been made to all Unitholders. That remains the position and no management fees will be payable to or accrued by the Fund until after this milestone is achieved.

### Fund Assets

Set out below is a table setting out the estimated realisable value as at 2 May 2008. Two additional columns have been added to show assets which have been actually realised, i.e. sold or refinanced since 2 May 2008 and the balance estimated realisable value.

Wellington has realised between 2 May 2008 and 10 December 2008 \$115.577 million in assets.

	Estimated Realisable Value	Actual realisations	10 December 2008 Estimated Realisable Value
<b>Assets</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
Cash and cash equivalents	15,417	15,071	346
Mortgage loans	305,994	67,351	238,643
Asset backed investments	96,655	16,583	80,072
Units in managed investment schemes	5,599	274	5,325
Fixed interest securities	15,523	-	15,523
Other assets	4,559	4,502	57
Total assets	443,747	103,781	339,966

<sup>1</sup> Source: Property Investment Research Pty Ltd, Investment Monitor, November 2008



	Estimated Realisable Value	Actual realisations	10 December 2008 Estimated Realisable Value
<b>Liabilities</b>	<b>\$000's</b>	<b>\$000's</b>	<b>\$000's</b>
Bank loan	100,000	(94,050)	5,950
Other liabilities	2,576	(487)	(2,089)
Total liabilities	102,576	(94,737)	7,829
<b>Net Assets</b>	<b>341,171</b>	<b>9,044</b>	<b>332,177</b>
<b>Unitholders equity</b>			
Unitholders' funds	755,147	-	755,147
Profit/(loss) for the period	(413,976)	(9,044)	(423,020)
	341,171	(9,044)	332,127
<b>Net Asset Backing per Unit</b>	<b>\$0.45</b>		<b>\$0.44</b>

### Asset Realisations

Set out below is a table showing the asset by asset estimates from 2 May 2008 and the actual proceeds received for assets sold or refinance during this period. The Fund realisations during this period are on target in terms of estimated realisable values.

	Estimated Realisable Value	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
Blacktown, NSW	\$1.8 million	\$1.8 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



	Estimated Realisable Value	Actual Realisation
Diversified trust	\$10.084 million	\$10.2 million
World of Learning	\$5 million	\$2.5 million
Property Fund	\$17 million	\$17 million
Property Fund	\$13 million	\$13 million
Cash	\$15.417 million	\$15.417 million
<b>Total</b>	<b>\$118.917 million</b>	<b>\$115.577 million</b>

## Fund Portfolio

The Fund's portfolio as set out on pages 23 to 25 of the Explanatory Memorandum dated 18 August 2008 is set out below with updated commentary about each asset.

### Mortgages

Wellington Capital Limited as responsible entity of the Premium Income Fund has become 'mortgagee in possession' of the property security in all but four instances. Wellington is now in control of the strategies for each of these assets moving forward. Two further properties are being managed by liquidators. Two loans remain subject to refinance negotiations.

Location	Principal and interest outstanding as at 31 May 2008	Maturity date	Status
<b>Commercial Loan Portfolio</b>			
Blacktown, NSW	\$2,563,140	29/12/2008	▪ Asset sold for \$1.8 million (Estimated realisable value: \$1.55 million)
Brooklyn West, VIC	\$846,655	30/04/2008	▪ \$549,000 realised (Estimated realisable value: \$500,000)
Chatswood, NSW	\$4,608,231	08/09/2007	▪ Property being managed by liquidator ▪ Fund is receiving rent proceeds from property as secured creditor
Creswick, VIC	\$2,952,680	25/09/2008	▪ Refinance being pursued by the Fund in conjunction with the borrower
Creswick, VIC	\$38,336,149	15/08/2008	
Dunns Creek, NSW	\$7,147,468	04/04/2008	▪ Fund is 'mortgagee in possession' ▪ External marketing to realise asset undertaken with CBRE ▪ Part of asset has been sold and is awaiting settlement



Location	Principal and interest outstanding as at 31 May 2008	Maturity date	Status
<b>Commercial Loan Portfolio</b>			
Hastings Point, NSW	\$14,392,282	25/06/2008	<ul style="list-style-type: none"> <li>\$12.669 million realised (Estimated realisable value: \$14 million)</li> </ul>
Helidon, QLD	\$4,314,083	31/12/2007	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>Fund is receiving rent proceeds from property as secured creditor</li> </ul>
Lane Cove, NSW	\$9,479,628	08/09/2007	<ul style="list-style-type: none"> <li>Property being managed by liquidator</li> </ul>
Lithgow, NSW	\$1,421,137	22/09/2006	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with LJ Hooker</li> </ul>
Mackay, QLD	\$1,359,481	29/09/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing campaign to realise asset commences in January 2009</li> </ul>
Mackay, QLD	\$9,215,142	01/09/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>Negotiations continue with potential purchasers</li> </ul>
Main Beach, QLD	\$14,318,669	29/10/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with McVay Real Estate</li> </ul>
Maroochydore, QLD	\$14,109,465	30/11/2005	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with Realway Real Estate</li> <li>Part of asset has been sold and is awaiting settlement</li> </ul>
Melbourne, VIC	\$9,012,542	19/02/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with CBRE</li> <li>Contract signed and is awaiting settlement</li> </ul>
Mission Beach, QLD	\$6,296,911	17/01/2009	<ul style="list-style-type: none"> <li>Not in default</li> </ul>



Location	Principal and interest outstanding as at 31 May 2008	Maturity date	Status
<b>Commercial Loan Portfolio</b>			
Nambucca Heads, NSW	\$5,048,399	15/03/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with Colliers</li> <li>Refinance being pursued in conjunction with borrower</li> </ul>
Narrabeen, NSW	\$2,646,905	06/10/2006	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with Ray White</li> <li>Asset contracted to sell \$1.5 million (Estimated realisable value: \$1.7 million)</li> </ul>
Nelsons Bay, NSW	\$2,451,211	29/06/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>Refinance being pursued in conjunction with borrower</li> </ul>
Port Macquarie, NSW	\$22,825,382	18/07/2007	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing to realise asset undertaken with CBRE</li> </ul>
SE Qld Hinterland, QLD	\$5,702,289	31/12/2007	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>Marketing campaign has commenced with 3 agents</li> </ul>
SE Qld Hinterland, QLD	\$5,633,284	31/12/2007	
SE Qld Hinterland, QLD	\$18,527,779	31/12/2007	
SE Qld Hinterland, QLD	\$5,833,137	31/12/2007	
SE Qld Hinterland, QLD	\$5,702,289	31/12/2007	
St Leonards, NSW	\$9,214,843	09/01/2009	<ul style="list-style-type: none"> <li>Asset sold for \$8 million (Estimated realisable value: \$8 million)</li> </ul>
Surfers Paradise, QLD	\$19,023,879	16/12/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing campaign by borrower to realise asset</li> <li>Fund is receiving rent proceeds</li> </ul>
Sylvania, NSW	\$34,365,429	29/08/2007	<ul style="list-style-type: none"> <li>Asset sold \$21.8 million (Estimated realisable value: \$19.7 million)</li> </ul>
Townsville, QLD	\$6,233,770	09/11/2008	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> </ul>



Location	Principal and interest outstanding as at 31 May 2008	Maturity date	Status
<b>Commercial Loan Portfolio</b>			
Tweed Heads, NSW	\$8,570,032	16/08/2009	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing campaign to realise asset will be undertaken in new year</li> </ul>
Wollongong, NSW	\$57,993,841	19/03/2007	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>Project needs to be funded to completion</li> </ul>
Yeppoon, QLD	\$9,891,863	06/06/2007	<ul style="list-style-type: none"> <li>Fund is 'mortgagee in possession'</li> <li>External marketing campaign by Ray White to realise asset</li> </ul>

#### Asset backed securities

Name	Estimated realisable value
<b>Asset backed securities</b>	
Sydney based company	\$20,000,000
Sydney based securities	\$12,700,000
Living and Leisure Group	\$493,000
Living and Leisure Australia Trust loan	\$27,000,000
Diversified Trust	\$905
South East Queensland based security	\$19,265,753
Diversified Trust	\$10,084,932
South East Queensland based securities	\$5,110,638
<b>Total</b>	<b>\$94,655,228</b>

Steps have been taken in relation to the Asset Backed Securities portfolio to improve the Fund's security position. These loans are for terms that expire between 2010 and 2012.





## Managed Investment Schemes and Fixed Interest Investments

Name	Estimated realisable value as at 31 May 2008
<b>Managed Investment Schemes</b>	
Unlisted property trust	\$3,598,019
Unlisted property trust	\$2,001,049
<b>Total</b>	<b>\$5,599,068</b>
<b>Fixed Interest Investments</b>	
Unlisted fixed interest security	\$9,512,902
ASX listed debt	\$2,360,000
ASX listed fixed security	\$3,650,000
<b>Total</b>	<b>\$15,522,902</b>

The two Managed Investment Scheme assets and three Fixed Interest Investments are not able to be sold in this market. The plan is to liquidate these assets when markets improve.

### Structure and strategy

At the time that changes to the structure of the Fund were proposed, Wellington Capital indicated that a three to five year investment horizon was required.

The default on repayment of the loan portfolio by the vast majority of borrowers by number and value means that Wellington Capital on behalf of the Fund is now mortgagee in possession on many properties and is formulating and implementing strategies aimed at realising the maximum possible value.

The Board is of the view that a number of the underlying assets securing debt will be assets that the Fund must by necessity remain involved with for the medium term.

Wellington Capital's model on behalf of the Fund is to introduce experienced and proven developers to the construction based assets to enable their development to be finalised and the end product to be well positioned in the market. This is an investment strategy that will have a three to five year investment horizon and will be dependant in terms of its implementation on a positive move in the property cycle. The timing of improvement in the property cycle is inherently uncertain at this time.

Detailed discussions have occurred with a range of interested parties in relation to all assets within the portfolio, the aim being to reposition properties appropriately for the next cycle in a way that maximises the return to Unitholders.



### **Centrelink – changes to deeming rates and asset values**

The Australian Government has lowered the social security income test deeming rates to reflect the recent reduction in interest rates and the impact the global financial crisis is having on returns on pensioners' investments.

Effective 17 November 2008, the deeming rate changed from 4% to 3% for the first \$41,000 of a single pensioner's financial investments (\$68,200 for a couple). It also changed from 6% to 5% for the balance of financial investments over these amounts.

Payments affected by the deeming rate include means tested pensions, such as the Age Pension, Disability Support Pension and Carer Payment, income support allowances and supplements, paid by Centrelink and the Department of Veterans' Affairs.

Recent decreases in the official interest rate means that the social security system needs to be adjusted to take account of decreased returns on deposits or other investments. Deeming rates are set to reflect returns on investment available to pensioners and other income support recipients.

The lowering of the deeming rates mean that part rate pensioners paid under the income test, with financial investments mainly in term deposits, shares, managed investments and other accounts, may receive an increase in their pension payments, to reflect the reduction in their assessable income.

Centrelink is also in the process of updating the value of pensioners' listed securities and managed investments.

Unitholders who believe that their pension should be adjusted should contact their local Centrelink office.

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

The second meetings of creditors of Octaviar Limited and four of its subsidiaries, including Octaviar Administration Pty Ltd is due to be held on 19 December 2008. The Administrator's report has been issued today.

The Board of Wellington has 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.

### **Bond Street Custodians – Federal Court proceedings**

As advised in recent Investor Updates, Bond Street Custodians Limited filed a claim against Wellington Investment Management Limited as responsible entity of the Wholesale Premium Income Fund on 16 October 2008 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 appeared in the Federal Court in Sydney on Friday 14 November 2008 before Registrar Hedge.

At this hearing, orders were made by consent that:

- ✿ the proceedings continue on the pleadings;
- ✿ Wellington file and serve its defence by no later than 5 December 2008; and
- ✿ the matter be listed for a further directions hearing on 16 December 2008.

Bond Street Custodians Limited and Wellington have consented to an extension to file and serve the defence in this proceeding until early February 2009.



## Supreme Court transcripts

During the 18 September 2008 and 15 October 2008 general meeting, Unitholders discussed the availability of court transcripts in relation to the ASIC hearing on 17 September 2008. After discussions with the State Reporting Bureau of Queensland which provides transcripts of Queensland Court proceedings, Wellington has been advised that transcripts cannot be distributed to Unitholders without paying for each individual copy for copyright reasons.

Copies of the transcript may be viewed free of charge at the State Reporting Bureau in Queensland.

Unitholders who wish to purchase a copy of the transcript may do so by contacting the Queensland State Reporting Bureau:

- ✿ by telephone on 07 3247 4360,
- ✿ by email to [SRB.transcripts@justice.qld.gov.au](mailto:SRB.transcripts@justice.qld.gov.au) or
- ✿ by writing to SRB, GPO Box 873, Brisbane, Qld 4001.

The current charge for a transcript is \$5.30 per page.

## Investor Advisory Committee

The purpose of the Investor Advisory Committee is to ensure Investor input into the decision making process of the Fund into the future. The Investor Advisory Committee will meet directly with the responsible entity through formal meetings and other communications.

Over 300 Unitholders have nominated for election to the Investor Advisory Committee. Wellington will be writing to each of these investors in January 2009 seeking information about those investors to provide to all Unitholders so that they can make an informed decision in relation to who to vote to the Investor Advisory Committee.

Unitholders will be given 4 weeks to provide the information sought, and this information will be provided to all current Unitholders for voting purposes.

The Investor Advisory Committee will comprise three democratically elected Unitholders in the Fund.

## Advisers

In light of the Fund's inability to pay Unitholders the forecast 3 cent cash payment before Christmas, payment of the handling fee to advisers has been deferred until such time as this payment can be made.

The Wellington Hotline has received many calls in relation to whether advisers are receiving commissions in relation to the Fund. Wellington confirms that all commissions have ceased.

Advisers were notified in late November 2008 of the departure of the adviser services team based in Sydney. All adviser contact numbers and emails remain unchanged and will be attended to by the Wellington Hotline.



## National Stock Exchange update

Trading in the Premium Income Fund (NSX:PIN) commenced on 16 October 2008. A summary of trading activity is set out below:

High	Low	Volume
45 cents	12 cents	639,002

## Contact details

Investors should ensure that their current details are notified to the registry of the Premium Income Fund, Computershare Investor Services.

This can be done either by requesting a change of details form from the Wellington Hotline, or online through Computershare Investor Services [www.investorcentre.com](http://www.investorcentre.com). Unitholders will need their current Security Holder Reference Number (SRN) which was provided to all Unitholders on their initial holding statement issued in August 2008.

Computershare will only record changes to details on the appropriate change of details form.

If you require assistance in changing your details, please contact the Wellington Hotline.

## Wellington Hotline – Christmas break

The Wellington Hotline will break for Christmas from 24 December 2008 to 19 January 2009. All questions will be attended to when the investor relations team return from 19 January 2009.

## Contact

Wellington Capital Limited  
as responsible entity of the Premium Income Fund  
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