



**CENTRIC** Capital

# Distressed Assets Fund

## Investment Update – March 2010

### Fund Information

<b>Fund Size</b>	\$11.3M	<b>Investment Horizon</b>	Long term	<b>Management Fee</b>	0.935%
<b>Strategy</b>	Passive Private Equity	<b>Domicile</b>	Australia	<b>Performance Fee</b>	20% of returns > 15% pa IRR
<b>Unit Price</b>	\$0.4668	<b>Denomination</b>	Australian dollar	<b>Inception date</b>	14 February 2008
<b>Distribution</b>	Nil				

### General comment

Economic conditions in Australia have improved considerably over the last twelve months and are expected to continue for some time. Credit conditions, however, remain difficult due in particular to the European debt crisis.

### Underlying investments

Distressed Assets Fund (DAF) holds 23.26% of the units issued in the Helmsman Capital Fund II (HCF II), managed by Helmsman Funds Management Limited (the underlying fund manager).

A brief update on the status of the investments currently held by HCF II is provided below:

#### 1. Force Corp (Force)

Force is an equipment hire and sales business focused on powered access equipment for large scale construction, infrastructure and maintenance projects.

EBITDA for the three quarters to 31 March 2010 was 12.1% below budget at \$18.5m, however positive signs of growth in February and March with a lift in tendering activity and capital sales was regarded as positive by the underlying fund manager as Q3 is typically the slowest quarter of the year.

During the quarter, particular focus was on Queensland with new operations established in Rockhampton and Gladstone as well as expansions in Townsville and the Gold Coast.

The WA operations have shown significant improvement during Q3 and the management of Force continues to capitalize on opportunities.

The acquisition of Independent Access was completed on 1 February 2010, increasing the Force fleet by 165 machines in NSW and a further 100 machines were purchased to support growth initiatives in other states.

Gross external debt at 31 March was \$57.1m down from \$69m at 30 June 2009 including the purchase of Independent Access.

The underlying fund manager's valuation of this business at 31 March 2010 was \$30.4m.

#### 2. Chippendale Printing (Chippendale)

All efforts by the underlying fund manager to turn the faltering business around have failed and the business was placed in voluntary administration on 19 April 2010.

The underlying fund manager advises that the Administrator has completed the sale of the printing and packaging business to Blue Star Group and Hannapak Advertising respectively after no reasonable offer was received for the total business.

We are also advised that the senior lender, Westpac, has agreed not to appoint a receiver, which will reduce the costs of the administration.

Offers for the equipment and the property will be considered over the next few weeks by the underlying fund manager. The underlying fund manager has undertaken a detailed scenario analysis, which under the current process, values the investment at \$2.0m at 31 March 2010.



### 3. QRSciences (QRS)

QRS develops and sells advanced technology systems for security related applications.

During the quarter, QRS sold its Research & Development business for US\$150,000 and at 30 April, held cash of \$6m. With the disposals of non-core and loss making ventures complete, QRS is now focused on a business growth objective through a combination of organic and acquisition initiatives.

The underlying fund manager's valuation of this business as at 31 March 2010 was \$3.1m.

### 4. Formit Holdings (Formit)

Formit is a diversified manufacturer of portable toilets, water tanks, telecommunication and infrastructure products.

Overall YTD revenue of \$33.2m and EBITDA of \$3.47m are in line with the underlying fund manager's forecasts. However, results from its business units were mixed. Portable Toilets was well above target and the underlying fund manager advise they are working at maintaining the competitiveness of the unit with a focus on managing the distribution partners as well as reducing production costs.

Water Tanks was well below budget due to heavy rain during the quarter. Apparently, the Victorian business is picking up after a poor start to the year. Infrastructure Products performed as forecast. Personnel changes in the business have been significant over the quarter.

The underlying fund manager has increased the valuation of this investment from \$4.5m to \$8.5m, based on the improved operating results of the business with EBITDA increasing from \$2.66m at acquisition to an expected EBITDA of \$4.5m for the 2010 financial year.

#### Calls on units

As at 31 March 2010, the units in DAF were called to \$0.50 per unit, and the uncalled amount was \$0.50 per unit. The timing of the future calls depends mainly on when HCF II requires the capital and we will advise you as soon as possible of any call with at least 10 calendar days notice.

#### Valuation of Investments

DAF has an estimated Gross Asset Value of \$11.3m and a Net Asset Value of \$10.7m or \$0.4668 per unit as at 31 March 2010, down from \$0.4699 as at 31 December 2009 due to a reduction in the value of the underlying fund assets, mainly Chippendale Printing (refer above).

#### Unitholder Information

Should you have any enquiries regarding your unit holding, you should contact FundBPO Pty Ltd on 1300 133 451. If you have any questions regarding your investment in the Distressed Assets Fund, you should speak with your Adviser in the first instance or contact us on 02 9250 6500.

#### Disclosure

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