

# Distressed Debt Fund

## Investment Update – June 2011

### Fund Information

<b>Fund Size</b>	\$0.911m	<b>Investment Horizon</b>	Long term	<b>Management Fee</b>	0.6%
<b>Strategy</b>	Passive Private Equity	<b>Domicile</b>	Australia	<b>Performance Fee</b>	20% of returns > 10% pa IRR
<b>Unit Price</b>	\$0.00	<b>Denomination</b>	Australian dollar	<b>Inception date</b>	09 July 2002

### Fund Performance

<b>Cumulative Distributions to Paid-in-Capital (DPI)</b>	177.2%
<b>Residual Value to Paid-in Capital (RVPI)</b>	0.0%
<b>Total Value to Paid-in-Capital (TPI)</b>	177.2%
<b>Paid-in-Capital to committed Capital (PIC)</b>	100.0%
<b>Internal Rate of Return (pa)</b>	23.6%

### General comment

The Distressed Debt Fund (DDF) holds 27.94% of the units issued in the Helmsman Capital Fund HCF, managed by Helmsman Funds Management Limited (the underlying fund manager). HCF was due to terminate on 30 June 2011, with a 180 days winding up period during which all remaining assets of HCF were to be realised and the fund wound up.

Over recent months the underlying fund manager has been working to finalise the disposal of the remaining assets in order to enable the timely winding up of HCF. Recent negotiations for the sale of Zone Advanced Protection Systems Pty Ltd. (Zone) have progressed to the stage where the underlying fund manager believes that the prospect of achieving a higher value for the business exists. However, the full exploration of this option will run into July/August requiring HCF to be extended for at least another 3 months to 30 September 2011. In accordance with the HCF constitution it will then have at least another 6 months to wind up the fund and realise the proceeds from the sale of the assets, but this period could be as long as two to three years depending on the structure of the transaction for the sale of the last investment.

In light of the above and given that HCF is soon going to be terminated, the directors of the responsible entity of DDF believe it is in the best interest of the investors to terminate DDF. On 24 June 2011 the directors resolved to terminate DDF. The directors also resolved that management fees will no longer be charged by the responsible entity after 30 June 2011. This also means that there will be no further capital calls made on the unit holders.

### Underlying investment

DDF has only one investment, which is in HCF. HCF now only has one significant investment, Zone.

HCF currently has two offers for the sale of the investment in Zone. A term sheet has been executed with Smart G Pty Limited and the second offer received by the underlying fund manager is a verbal offer from a public listed company and all details of this party remain confidential. Both offers have a fixed return on completion and a deferred payment based on the performance of Zone over the next two to three years. The structure of the proposal from the public listed company is more favourable for HCF in terms of the level of fixed return HCF could receive. HCF will use the coming months to lock in the best deal.

### Calls and Distributions

Units in DDF are now fully paid to 87 cents per unit. DDF has distributed \$1.54 per unit to unit holders, which is 177.2% of the paid in capital of \$0.87 per unit equating to an Internal Rate of Return of 23.60% pa.

There were no distributions or capital calls during the quarter.

### Valuation of Investments

DDF has estimated the remaining net asset value of the Fund at \$0.00 per unit as at 30 June 2011, down from \$0.001 as at 31 December 2010. The change in the value is due to the reduction in value of HCF's investment in National Medical and Imaging Group.



## Performance Fees

The PDS states that the holders of Class B units are eligible to receive a performance fee of 20% of returns in excess of the Performance Benchmark, which is the greater of:

- the Performance Benchmark (The UBS Warburg Corporate Bond Index or equivalent index);
- 10%; and
- the average 90 Day Bank Bill Rate

expressed as an average annual return over the period from the date the initial offer was closed to the date on which all investments in the fund have been disposed of. The performance fee is payable on the termination of DDF.

The directors of the responsible entity resolved to terminate DDF and thus the performance fee is now payable. Any proceeds realised from HCF will be used to first meet the operating expenses of DDF and the performance fees due to Class B unit holders, with the balance remaining, if any to be returned to unit holders.

## Unit holder 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 Debt Fund, you should speak with your Adviser in the first instance or contact us on 02 9250 6500.

## Disclosure

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