

Distressed Debt Fund

Investment Update – September 2009

Fund Information

Fund Size	\$2.8M	Investment Horizon	Long term	Management Fee	0.6%
Strategy	Passive Private Equity	Domicile	Australia	Performance Fee	Nil
Unit Price	\$0.164	Denomination	Australian dollar	Inception date	09 July 2007

Fund Performance

Cumulative Distributions to Paid-in-Capital (DPI)	177.0%
Paid-in-Capital to committed Capital (PIC)	91.6%
Residual Value to Paid-in Capital (RVPI)	18.9%

General comment

As at 30 September 2009 the Distressed Debt Fund ("the Fund") had drawn down \$9.08m or 91.6% of the committed capital and had cash on hand of \$294K.

Underlying investments

Helmsman Capital Fund (HCF), the underlying fund currently has exposure to three investments across a variety of sectors, including underground mining services, medical services and security software services. A brief update on these is provided below:

1. National Medical and Imaging Group Ltd (NMIG) - NMIG continues to comprise 13 comprehensive radiology practices and one day surgery operating in Western Australia, Queensland and Victoria.

Operational performance in Radiology remains below budget. Remedial action plans have been developed by management aimed at those individual sites that are underperforming.

The sale process for the Day Surgery operations was restarted during the September quarter. Due diligence is currently being undertaken by a preferred bidder and a binding offer is expected by early November.

2. Walter Diversified Services Ltd (WDS) - WDS provides specialist services to the infrastructure, energy and resources sectors.

During the quarter, the company reported excellent operational results for FY2009 despite the tough economic conditions during the year. Revenue increased 74% year on year to \$495m and NPAT increased 13% to \$20.3m. Improving economic conditions in 2010 are expected to be positive for the Group, especially with work restarting on two major coal seam gas infrastructure projects that have been on hold since the March quarter.

Following the listing of WDS in December 2006, the Fund has been selling down its holding and at 30 September 2009 holds a nominal stake with an investment value of \$2m. The Manager expects that this holding will be fully realised by the end of the December quarter.

3. Zone Products Australia Pty Ltd (Zone) - Zone is a provider of perimeter security software and devices. Total sales for the quarter were in excess of \$800K. Sales volumes increased from month to month during this period and some longer-term prospects were converted into sales. This included a radar sale to Pine Gap. The Research and Development grant tax refund was approved by the Australian Taxation Office.



Currency movements have continued to be positive over the quarter. This, in combination with high margin MSCP software sales, has contributed to positive gross margin for the quarter. The Manager expects this to continue. EBITDA for the quarter is ahead of budget and management are focused on continuing the positive trading performance for the remainder of the year.

The appointed international sales manager, KPMG, has canvassed 70+ parties worldwide with an estimated 10 expressions of interest which progressed to management presentation of the MSCP software product. With the summer holiday period, particularly in the USA and Europe combined with the need to work with local divisions of global security sector peers has caused the sale timetable to be extended to late November/early December for the preferred party selection.

Calls and Distributions

Units in the Fund are currently paid up to 87 cents per unit, with a maximum of another 8 cents per unit to be called. The timing of the final calls depends entirely on when HCF requires the capital and we will advise you as soon as possible of any call with at least 14 days notice.

There were no distributions or capital calls during the quarter.

Valuation of Investments

The Fund has estimated the remaining net asset value of the Fund at \$1.7m or \$0.1640 per unit as at 30 September 2009, up from \$0.1354 as at 30 June 2009.

Termination

Distressed Debt Fund initially had a termination date of December 2009. The manager of the underlying investment, Helmsman Capital Fund, recommended extending the termination date to December 2010.

The unitholders of the underlying investment met and approved the extension to allow the orderly disposal of the residual assets.

The basis for their approval is the sale of the residual WDS shareholding and use of part of the funds raised to support the investment in NMIG, if required, prior to the expected sale of the business.

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

Disclosures

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