

Distressed Debt Fund Investment Update

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Investment Update – General Market Comment

In the flurry of IPO activity in the last few months of 2003, we noticed quite a number of companies being floated by venture capital investors exiting their investments. Examples of this included Repco and JB Hi-Fi. This year will see companies such as Pacific Brands and Just Jeans float, after several years of private equity ownership. An IPO is just one of the methods private equity investors use to exit their investments. Other methods include trade sales, and in some cases, sales to other private equity investors.

Although it is far too early to think of exiting the underlying investments to which we are exposed, as the ink has barely dried on the sale agreements, these IPOs illustrate one of the means available to Helmsman to exit its investments.

In terms of new investment opportunities, factors that may lead to distress this year include the strong Australian dollar, which can affect export-oriented businesses, and increases in interest rates, which can especially affect heavily debt-laden businesses. We see Helmsman, and therefore the Distressed Debt Fund, well placed to use their capital and skills to assist in the turnaround of distressed opportunities that may arise during the year ahead.

Underlying Investments

Our investment in the Helmsman Capital Fund is progressing well. Our units in Helmsman are now called to just over 32 cents per \$1.00 unit. Helmsman expects to call a significant part of the remainder during calendar 2004. Below we provide a brief overview of each of the investments Helmsman has made so far.

WC Penfolds Ltd

The Helmsman Capital Fund backed the buy-in by the new management team in August-September 2003. Since taking control of the Company, the focus of the new management team has been on reducing costs and implementing rigorous business controls. The head office was relocated from higher cost CBD premises to new premises in the city's south, which is also the new distribution centre. The new management also sold a large portion of the shares it held in another business, Penfolds Buscombe Ltd, which was deemed as a non-core holding.

Clearly, rationalization of costs and assets is a key focus of the new discipline the MBI team and Helmsman bring to bear on the WC Penfolds business.

The Company indicated they expect to continue incurring trading losses while it consolidates its position and refines the business plan. The main objective is to stem trading losses and become cash flow positive on a monthly basis by the end of the current financial year.

One can easily see from this brief update that WC Penfolds is a company in distress – which is exactly why Helmsman made this investment. The price paid for the stake in the business reflects the extent of the distress. With the new management team now settled in their roles, they can begin the long process of driving the business back to profitability.

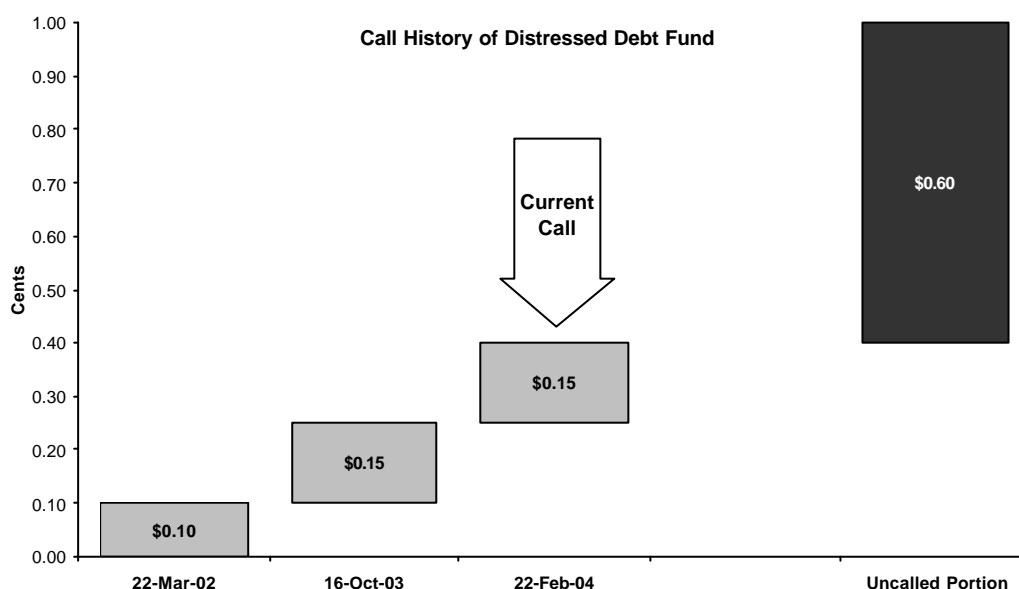
New Investments

The two most recent investments made by Helmsman are in Loongana Lime and National Medical & Imaging Group. Loongana Lime is a lime processing business in the goldfields area of Kalgoorlie in WA. National Medical & Imaging Group has recently agreed to acquire all the medical centres, radiology clinics and a day surgery facility from the Gribbles Group Ltd, an ASX listed healthcare business. In both instances Helmsman have once again partnered with new management teams (as they did with WC Penfolds).

As both transactions are not yet completed, there is little we can speak about in terms of the plans for the businesses. We expect more information available by the time we publish our next investment update.

Calls on Units

The Fund has issued notice of its third call, due on 22 February 2004. This brings the total funds called to 40 cents per unit, with another 60 cents per unit remaining uncalled. We expect that a large proportion of these 60 cents will be called upon during the remainder of 2004.



Unit holder Information

This Investment Update is available on our website (www.berkleygroup.com.au). Should you have any enquiries regarding your unit holding, you should contact Registries Ltd on 02 9279 0677.

If you have any questions regarding your investment in Distressed Debt Fund, you should speak with your financial adviser in the first instance or contact us on 02 8233 0200.

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