

Distressed Debt Fund

ARSN 099 271 173

Investment Update

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Investment Update – General Market Comment

Private equity investors continue to exit investments made in the previous cycle, most recently Bradken Resources (which first abandoned, then rescheduled and finally succeeded in its plans to float on the ASX). Bradken was sold to private equity investors in 2001. Although a relatively short-term investment by private equity standards, it still took three years before realizing a return to investors.

The trade off for patient capital in private equity is the potential to earn higher returns than shorter term, liquid investments. DDF is just over two years into what we expect will be a 7-10 year investment strategy.

Helmsman Funds Management, the manager of the Fund's underlying investment, has noted that the high level of activity in public and private equity markets is driving greater interest in distressed opportunities, particularly for businesses with turnover in excess of \$20 million. There is also evidence of similar developments in the US distressed debt market. As prices rise, we believe there needs to be continued emphasis on maintaining a disciplined approach to investing. The success of an investment is largely determined by the price paid for it, not for what it sells.

While the pace of investment is slower than we initially expected, investor returns are not compromised as investor funds are only called on as needed. By deferring investments in favour of those projects that Helmsman believes represent good value, they are increasing the likelihood of better overall returns.

The Prospectus detailed the ownership structure of Helmsman Funds Management as being held 50% by KPMG and 50% by Macquarie Bank. As a result of new regulations for audit firms in the US, KPMG has spun off its corporate recovery ("CR") practice. The reformed practice is now known as McGrath Nicol +Partners ("MN+P"). KPMG's 50% share will transfer to MN+P as a result. We have no concerns arising from this transaction as it continues to ensure the same level of CR skills and resources, which KPMG previously brought to the table.

Underlying Investments

Helmsman Capital Fund has made four investments so far. We provide a brief update on the three major ones below. The table below summarises DDF's exposure (at cost) to each investment.

Investment	DDF Exposure
WC Penfold Group Services	\$176,000
Loongana Lime	\$322,456
National Medical & Imaging Group	\$1,514,849
Cash*	\$921,567

*Includes funds from repayment of the initial Penfold investment

WC Penfold

The initial investment in WC Penfold Ltd was repaid prior to the company being placed into administration. This has now been transferred into a new investment, WCP Group Services Pty Ltd ("WCPGS"). In doing so, Helmsman and its partners have gained control of one of the most valuable assets of WC Penfold, the brand itself. In restructuring the business, Helmsman have brought together the residual interest in WC Penfold, the WC Penfold brand, a state of the art warehouse and distribution system, and a new partner, the Office Choice Group. Helmsman has an effective 26% stake in the new business.

WCPGC owns the WC Penfold brand, as well as stock and the warehouse. The previous management team purchased some WC Penfold stores as a separate part of the transaction. The warehouse has commenced operations as the wholesaler for the Office Choice buying group as well as the remaining WC Penfold stationers. Helmsman has no direct exposure to the retail side of the business, only as a wholesaler with the retail stores being one of the nearly 100 full members of the combined Office Choice/WC Penfold franchise network.

Office Choice is a buying group for independent office product dealers. Their annual buying volumes are in excess of \$100m. The increase of Office Choice member volumes through the warehouse is a key driver to the future success of the merged business model.

An interesting footnote to this transaction is that the current business model is one of the strategic alternatives identified by Helmsman when it first invested in WC Penfold. The voluntary administration of WC Penfold only served to accelerate the achievement of the distribution model strategy. Upon completion of the current business integration activities Helmsman estimates this merger will put the business at least a year ahead of schedule.

Loongana Lime

Loongana Lime has endured some exceptional circumstances in recent months. Mining plants in the area were closed in February and March due to heavy rains, the receivership and subsequent sale, and the plant maintenance shut down of two major clients, Bulong and Cawse respectively. Despite the rains and closures, sales of lime have been in excess of budget, largely due to a one-off sale in May. Costs were also reduced in response to the flood rains, which preserved cash levels.

Cawse has advised that it is re-opening this month and Helmsman expects the new owners of Bulong to have the plant running within 12 months. They see the new ownership as a long term positive for Loongana. Loongana is pitching for new contracts with a view to utilizing excess capacity. We are told there are several large-scale contracts up for bidding, which, if won, could easily utilise the excess capacity.

National Medical & Imaging Group Pty Limited ("NM&IG")

Financial results to 30 June 2004 for NM&IG were in line with budget. The Government's Medicare Plus initiative led to greater than expected revenues and the company achieved cost savings on operating budgets. Much of these benefits were offset by lower than budgeted doctor hours and increased repairs and maintenance on equipment.

The next phase of the company's strategy is to increase the number of doctors using its facilities. Leveraging the facilities is a key profit driver in medical operations.

Helmsman is confident that there is considerable scope for corporate action in the medical services sector, citing the Sonic Healthcare (ASX:SHL) and Primary Healthcare (ASX:PRY) bidding war for Independent Practitioner Network (ASX:IPN). They are of the view that NM&IG is well placed to benefit from further activity in this sector.

Calls on Units

Units in DDF are currently called to 40 cents per unit, with another 60 cents per unit remaining uncalled. We expect that the balance of the 60 cents outstanding will be called in 2005, but this will depend entirely on the time it takes Helmsman to find suitable investment opportunities.

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 consultant in the first instance or contact us on 02 8233 0200.

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