

Distressed Debt Fund Investment Update

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Quarterly Investment Update

General Market Comment

The sharemarket in Australia continued to move upwards unabated throughout most of financial year 2005, and has continued since. As we've noted in these quarterly updates previously, there is a relationship between the share market cycle and private equity investing.

Martin Whitman, Chief Investment Officer of Third Avenue Funds (a well-regarded American value fund manager), puts it quite eloquently by saying that there is a long-term arbitrage between business value and sharemarket prices. Two simple rules emerge from this observation: when share prices are high relative to business values, go public (that is, do list the company); and when share prices are low relative to business value, go private (that is, become an unlisted company).

Given the initial public offering ("IPO") activity in the sharemarket now, one might easily conclude that share prices are higher than business values. We continue to see private equity investors selling down their private assets to public markets (either by way of IPO or selling to publicly listed companies). For example, its private equity owners listed Penrice Soda Holdings Ltd in July this year after a number of years in private hands. At the same time, private equity managers are raising cash for their latest investment funds. For example, Champ Private Equity recently raised \$950 million for a new fund, which was \$200 million oversubscribed.

We've even seen evidence of listed companies venturing into the distressed asset arena, with Cabcharge Australia Ltd joining a consortium to acquire Westbus, a failed bus company operating in Western Sydney. Helmsman had previously considered Westbus, but did not consider the investment worthwhile.

Underlying Investments

A pre-requisite of all of investments considered by Helmsman is that there is some form of distress. The majority of our investments have themselves been distressed.

Walter Mining, a mining and tunnelling services business and our the latest investment to which the Fund is exposed (discussed below), is slightly different, since its "distress" arose not from its own activities, but rather from its parent company, Walter Constructions. Walter Constructions was a large construction company owned, in turn, by a German company, Walter, which went bust. The administrator sought offers for the assets, including Walter Mining. Helmsman was able to secure the asset rapidly, ensuring no major contracts were lost. This meant that except for the distress of the selling, there was little distress associated with Walter Mining itself.

This kind of investment is in the "sweet spot" for distressed investing, where you have a distressed seller of an otherwise performing business. In fact, Walter Mining had operated profitably.

Helmsman Capital Fund has four investments. We provide a brief update on these below. The table below summarises the Fund's exposure (at cost) to each investment.

Investment	DDF Exposure
Walter Mining	\$1.54m
WC Penfolds Group Services	\$1.00m
Loongana Lime	\$0.39m
National Medical & Imaging Group	\$1.76m

Walter Mining

Walter Mining is performing strongly. Company management has already revised their buy-out budgets upwards, with work in hand for 2006 already beyond the initial budget. Helmsman is currently in exclusive negotiations for a new acquisition for the Walter business that has the potential to generate an additional \$20m of revenues for the existing business. The negotiations are at an early stage, so we can't be sure today they will complete.

WCP Group Services ("WCPGS")

Helmsman has made a follow-on investment in WCPGS, as part of a recapitalisation that sees some investors diluted (which is seen as positive). Part of the recent DDF call went to fund this investment.

Operationally, WCPGS has seen strong margin expansion (from 10% in FY 2005, to 12.5% for July, with expectations of 14-15% thereafter). All WC Penfolds stores, previously owned by the management buy-in team, have now been sold to individual operators, increasing the credit diversity of the revenue streams (that is, being exposed to 6 businesses, rather than one). The performance of these now independently owned stores has improved and is above budget (this flows through to WCPGS in the form of wholesale revenues). Supplier terms are also slowly improving (that is, increasing payment terms).

Loongana Lime

The Loongana Lime sale process is well underway, with more than 15 parties responding with expressions of interest. From an operational perspective, the business has extracted almost all the improvements and efficiencies that are available. A proportion of the recent DDF call made went to fund some working capital requirements of Loongana during the sale process.

We expect a sale agreement to be announced in the not too distant future. We will advise investors as soon as we can as to the outcome of this process.

National Medical & Imaging Group Pty Limited ("NMI&G")

NMI&G overall was 6% above budget in July and August is expected to also be at or above budget. Day surgery assets have performed strongly, while radiology is showing signs improvement. Doctor acquisitions are continuing, with expectations being for 10 new doctors to join between now and year's end. Management is exploring further acquisitions to complement the existing WA footprint, as well as looking at the Eastern states. Consolidation in the health and medical industries continues to be a strong theme, with many opportunities to consider. Large public companies remain the likely buyer for NMI&G once the turnaround is completed.

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Calls on Units

Units in the fund are currently called to 57 cents per unit, with another 47 cents per unit remaining uncalled. The timing of calls depends entirely on the time it takes Helmsman to find suitable investment opportunities. We will advise you as soon as possible of any call with at least 14 days' notice.

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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