



Distressed Debt Fund Investment Update

Quarterly Investment Update – June to September 2006

Unit price update

The revaluation of Walter Mining and NMIG investments were behind the increase in the Fund's unit price, from \$0.6692 at 30 June 2006 to a current \$1.0529 at 30 September 2006.

General comment

Headlines in the media relating to private equity continue to be attention-grabbing. The figures quoted tend to be in the 'billions', not millions, which, even for the most seasoned investment professional, is eye-catching and a source of good conversation.

While there is no doubt that huge amounts of capital are flowing into private equity funds and investments, some perspective is worthwhile. For example, according to the latest Thomson Financial & Australian Private Equity and Venture Capital Association 2006 Survey, there was \$22.4 billion of private equity funds under management as at 30 June 2006. This represents the equivalent of just over 2% of the current market capitalisation of the Australian Stock Exchange, which stands at close to \$1,000 billion.

Another fact is that private equity funds such as KKR, a leading US private equity firm, are still prepared to walk away from investments they deem not to have appropriate risk/reward profiles, for example when they launched, and subsequently withdrew (for the time being) a takeover bid for Coles Myer Ltd. That bid valued Coles in excess of \$18 billion. These figures make for good headlines while seemingly 'boring' private equity figures don't make good headlines and are therefore not reported on. As an aside, we also believe there's a public relations war emerging between public and private equity as takeover battles rage, that will play itself out in the media. We shy away from making investment decisions based on what appears in the media, preferring to focus on facts and figures we can reliably analyse.

Our own experience through the Helmsman Capital Fund (HCF) has been of acquisitions that have been made at much lower cost multiples and which have been earnings accretive, but haven't made the headlines. We believe that there are opportunities in the private equity sector for managers who are seeking good value for their investors, but which won't make headlines due to the lower prices.

Underlying investments

HCF currently has three investments across a number of sectors, including underground mining services, lime kiln operations and medical services. A brief update on these is provided below:

Walter Mining

Preparations for a December 2006 Initial Public Offering (IPO) are proceeding according to plan. The two groups that have been chosen to facilitate the public offering are Macquarie Bank and Bell Potter. We keenly await the IPO, scheduled for 7 December 2006.

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Loongana Lime

We are currently in the process of exiting this investment at a loss. We will shortly be distributing proceeds of a partial sale of assets, with the balance forthcoming in the near future. Because Loongana Lime was a small investment for the fund, it has little impact on the fund's overall return to investors.

National Medical and Imaging Group Pty Limited (NMIG)

The investment is proceeding well, with several exit opportunities being explored while company management is continuing to increase synergies and revenue levels. Meanwhile, Helmsman is looking to dispose of certain non-essential assets with proceeds to be distributed to unitholders. This investment continues to exhibit a potential for a good return to investors and we are pleased with its progress.

Calls on units

Units in the Fund are paid up to 68 cents per unit, with another 32 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.

Unitholder information

Should you have any enquiries regarding your unit holding, you should contact Registries Ltd on 02 9290 9600. If you have any questions regarding your investment in the Distressed Debt Fund, you should speak with your financial adviser in the first instance or contact us on 02 9250 6500.

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