



Distressed Debt Fund Investment Update

Investment Update – March 2007

Unit price update

Investors have, to date, invested \$0.87, received back \$0.91 as a distribution in December 2006 and still own units valued at \$0.7398 as of 31 March 2007. The estimated gross internal rate of return (IRR), an annualised return calculation that incorporates timing of cash flows to and from investors, using the current DDF unit price is approximately 30%. Clearly, the actual returns to investors will depend on future returns from the existing investments in the portfolio.

The unit price incorporates current market value of the small amount of Walter Diversified Services Ltd (ASX: WDS) that has been retained by the Helmsman Capital Fund (HCF), a slight upward revaluation of the NMIG investment, a small asset holding in Loongana Lime and the latest investment, Zone Products, being carried at cost.

Additional Investment

We recently called 14 cents per unit from committed capital. This call was used to acquire additional units in HCF which have been offered up for sale by another investor. We believe that the price at which they were bought offers considerable value and upside potential to DDF unitholders. All remaining investors in HCF are taking up their pro rata share.

General comment

It is not surprising to see that the private equity sector continued to experience positive attention from investors in 2006. We expect this to continue in 2007 as we see this recent revival and attention to private equity investments as a positive addition to investors' portfolios.

Private equity attracts investors due to different positive attributes. Private company management do not have to deal with the daily, weekly and monthly barraging from the media and brokerage analysts, which gives them more time to focus on their jobs, which should be building value for shareholders. Private company management are also able to make difficult decisions that may be painted in a bad light by the media, such as firing employees, relocating jobs or closing down warehouses, but which are essential for the long term viability of the company.

These are but two of the reasons why we believe an allocation to private equity investments in a well diversified investment portfolio is appropriate.



Underlying investments

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

Walter Diversified Services Ltd

The majority of the investment was sold through an initial public offering (IPO) in December, while a small portion of the listed stock is being held in escrow until the release of the 2007 financial results for the company. The realisation of this investment via the IPO made up the majority of the \$0.91 cents per unit distribution received by investors, and is indicative of the type of return that can be created in the private equity sector.

National Medical and Imaging Group Pty Limited (NMIG)

This investment is currently the largest in HCF. Several exit opportunities continue to be explored and management continues to focus on improving the efficiency of its operations and grow the underlying business units.

Zone Products

This company manufactures perimeter security software products designed for the counterterrorism and critical infrastructure protection marketplace. Its existing clients include several large global companies and several Australian government bodies.

Loongana Lime

Having previously initiated the exit from this investment through the sale of part of its assets, HCF is still looking to sell the balance of assets. The realisation will be included in any future distribution to investors.

Calls on units

The Helmsman Capital Fund has given notice to DDF on the amount of capital that they require for the remaining life of the fund and the balance of the committed capital will be extinguished. We, in turn, give notice to investors that we will be calling a maximum of another 8 cents per unit over the remaining life of the Fund. This means that units in the Fund are currently paid up to 87 cents per unit, with a maximum of another 8 cents per unit remaining to be called for a total possible investment of 95 cents per unit and the remaining 5 cents per unit extinguished. The timing of the final calls depends entirely on when Helmsman requires the capital and we will be sending a separate letter to unitholders explaining this in more detail. 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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