TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE DIRECTORS' REPORT

The Directors of Trilogy Funds Management Limited, the Manager of Trilogy Investor Choice Melbourne Campus Office Syndicate (the Trust) present their report together with the financial report for the syndicate for the financial year ended 30 June 2006.

Directors

The persons held office as directors of Trilogy Funds Management Limited during or since the end of the financial year are:

Mr Philip Ryan

Mr Rodger Bacon

Mr Michael Curley

Mr Jonathan McCarthy

Mr John Barry

Mr David Hogan (appointed 24 January 2006)

Mr Trevor Gibson (appointed 14 August 2006)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Operating Results

The profit from operations of the trust for the financial year was \$485,367 (2005: \$10,243). The property was revalued to \$14,898,000 and after including the revaluation increment the profit for the year before distributions to unitholders was \$986,442.

Distributions

Distributions of \$568,083 (2005: \$30,988) were paid to unitholders during the period.

Review of Operations

The Trust commenced operations in March 2005 and has operated substantially in accordance with the information provided in the Product Disclosure Statement (PDS).

Significant Changes in State of Affairs

Since formation in March 2005 the Trust has invested in the property known as 90 Maribyrnong Street. Footscray, Victoria (Lonely Planet Headquarters). Mezzanine funding provided by an international investment bank to assist in the acquisition of the property was repaid in full in September 2005 from subscriptions to the Trust. In the opinion of the Manager there are no other significant changes in the state of affairs of the Trust which occurred in the financial year.

Principal Activity

The principal activity of the Trust during the financial year was investment in the property known as Trilogy Investor Choice Melbourne Campus Office Syndicate which owns and leases a commercial property,

There was no significant change in the nature of these activities during the year.

After Balance Date Events

The Manager has not become aware of any significant matters or circumstances which have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

Likely Developments

The likely developments in the operation of the Trust and the expected results of those operations in financial years subsequent to the year ended 30 June 2006 are included in the Review of Operations.

Environmental Issues

The Trust's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE DIRECTORS' REPORT (continued)

Indemnification and Insurance of Officers and Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the trust. So long as the officers of Trilogy Funds Management Limited act in accordance with the Trust Constitution and the Law the officers remain indemnified out of the assets of the Trust against losses incurred whilst acting on behalf of the Trust. The auditor of the Trust is in no way indemnified out of the assets of the Trust.

Fees Paid and Interests held in the Trust by the Manager or its Associates

The fees paid or payable to the Manager and its associates out of the Trust during the financial period are shown in note

The Manager or its associates held no units in the Trust as at 30 June 2006.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a part to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

Supplemental Deed Amending The Constitution International Financial Reporting Standards

A Supplemental Deed amending the Constitution of the Trust has been prepared and lodged with the Australian Securities & Investment Commission (ASIC). The Supplemental Deed effectively preserves operation of the previous Accounting Standards (applicable prior to 1 January 2005) in carrying out any calculation or making any determination in relation to the Trust.

ASIC has advised that all Australian entities preparing financial reports under the Corporations Act 2001 must comply with the Australian equivalents of the International Financial Reporting Standards (A-IFRS) for financial years beginning on or after 1 January 2005.

The major impact of the new Standards requires unit holder funds to be classified in the statement of financial position as a liability and not as equity, due to the rights of unit holders on conclusion of the Trust.

ASIC has recognised that this impacts on most funds, the investors and managers particularly in relation to calculation of fees and unit pricing. ASIC has issued a class order to enable fund managers to change the Constitution of each fund to the effect that accounting standards presently existing continue to apply and are not affected by the transition for financial reporting purposes to A-IFRS.

Trilogy Funds Management Ltd believes that the modification of the Constitution as contemplated by the Supplemental Deed will not adversely affect the rights of members of the Trust.

Signed in accordance with	a resolution of the Board	of Directors of the trustee company:
Director	Mr R, Bacon	<i></i>

Dated this 5th day of October 2006



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BUSINESS & FINANCIAL ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

MGI White Hancock Chartered Accountants

C M Douglas Partner

Brisbane

6 October 2006

MGI White Hancock Chartered Accountants

MGI White Hancock Pty Ltd. A&N 58 295 962 698

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TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE INCOME STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
Revenue	3	1,300,966	352,097
Interest & borrowing costs	4	(705,497)	(310,154)
Other expenses	4	(110,102)	(31,700)
Profit from operating activity		485,367	10,243
Other income / expense			
Investment property – increase in valuation	5	498,000	**
Investment property – acquisition costs expensed	5	3,075	(863,887)
Profit/(loss) for the year before finance costs	8	986,442	(853,644)
Financing costs attributable to unitholders			
Distribution to unitholders	1(d),9	(568,083)	(30,988)
Change in net assets attributable to unitholders		418,359_	(884,632)

TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE BALANCE SHEET AS AT 30 JUNE 2006

	Notes	2006 \$	2005 \$
ASSETS			
CURRENT ASSETS			
Cash assets - Bank Receivables		68,516 ~	422,467 740
Prepayments - Interest		29,064	32,852
TOTAL CURRENT ASSETS		97,580	456,059
NON-CURRENT ASSETS			
Investment property	5	14,898,000	14,400,000
TOTAL NON-CURRENT ASSETS		14,898,000	14,400,000
TOTAL ASSETS		14,995,580	14,856,059
LIABILITIES CURRENT LIABILITIES			
Payables Interest-bearing liabilities	6 7	47,937	1,457,307 2,847,216
TOTAL CURRENT LIABILITIES		47,937	4,304,523
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	7	8,775,140	9,341,140
TOTAL NON-CURRENT LIABILITIES		8,775,140	9,341,140
TOTAL LIABILITIES (excluding net assets attributable to unitholders)		8,823,077	<u>13,645,663</u>
Net Assets attributable to unitholders	8	6,172,503	1,210,396
TOTAL LIABILITIES		14,995,580	14,856,059

The accompanying notes form part of these financial statements.

	Notes	2006 \$	2005 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Rent Receipts		1,280,622	344,254
Payments to suppliers		(117,435)	+
Interest received		20,344	7,843
Borrowing costs paid		(697,709)	(332,003)
Net cash provided by/(used in) operating activities	10(b)	485,822	20,094
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for investment property		-	(15,263,887)
Net cash provided by/(used in) investing activities		#*************************************	(15,263,887)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from unit issue		4,543,748	2,902,702
Proceeds from/(repayment) of borrowings		(3,417,216)	12,882,221
Equity raising and formation costs paid		(1,398,222)	(87,674)
Distributions paid		(568,083)	(30,989)
Net cash provided by financing activities		(839,773)	<u>15.666,260</u>
Net increase/(decrease) in cash held		(353,951)	422,467
Cash at beginning of financial year		422,467	
Cash at end of financial year	10(a)	68,516	422,467

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers the Unit Trust as an individual entity. The Trust is a unit trust, established and domiciled in Australia. The financial report complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the trust in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

The Trust has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of the Trust to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(b) Revenue

Revenue from the rental property is recognised when the Trust has a right to receive the rent in accordance with the lease agreement. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

(c) Investment Property

The investment property is comprised of land and a building, including integral plant and equipment such as fixed air conditioning, held for the purpose of producing long term rental income. The property has been brought to account at fair value, determined annually. Changes to fair value are recorded in the income statement as other income. Independent valuations of the property will be performed where the Responsible Entity believes that there has been a significant change in the value of the property. The Manager must ensure that the Property is independently revalued at least every 3 years. Depreciation is not applicable in applying the fair value accounting model. The property was originally accounted for at purchase cost plus the costs of acquisition in accordance with previous GAAP. The effects of this change in policy are shown at Note 5 in this report.

(d) Unitholders funds

Under previous Australian Accounting Standards ordinary units issued by the Trust were classified as equity instruments in the balance sheet. Due to the Trust having a finite life, AIFRS requires that the units on issue be classified as debt instruments rather than equity instruments. In addition, the Trust has an obligation under its constitution to deliver all net taxable income to the unit holders at the end of each period, consequently the trustees consider that the units on issue will be appropriately classified as a financial liability of the trust under AIFRS. As a result, distributions paid to unit holders are reclassified as finance costs in the income statement.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Issue Costs

All costs in relation to the raising of equity funds for the Trust were offset against Investors' funds as a reduction of proceeds from the issue of Units.

(f) Deferred Borrowing Costs

Deferred borrowing costs comprise all costs in relation to the establishment, arranging and documentation of the debt facility. Such costs are offset against the balance of the debt facility and expensed over 5 years, being the period of the facility.

(g) Income Tax

Under current law, the Trust is not liable for income lax provided Investors are entitled to all the distributable income of the Trust each year. Investors will be liable for tax on the taxable distribution at rates applicable to each individual investor's personal tax circumstances.

(h) Distributions

The Trust constitution provides for the distributable income to include both income and capital. Distributions per Unit will be determined by dividing the total distributions (i.e. income and capital components) for the period by the number of Units on issue on the last day of the distribution period.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST. Receivables and payables in the Balance Sheet are shown inclusive of GST.

(j) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Note

2006 \$ 2005 \$

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

	Note	Previous GAAP At 30 June 2005	Effect of Transition to AIFRS	AIFRS at 30 June 2005
		\$	\$	\$
Reconciliation of Equity at 1 July 2005				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		422,467	-	422,467
Trade and other receivables		740	-	740
Prepayments		32,852	-	32,852
TOTAL CURRENT ASSETS		456,059	**	456,059
NON-CURRENT ASSETS				
Investment Property	2a	15,263,887	(863,887)	14,400,000
TOTAL NON-CURRENT ASSETS		15,263,887	(863,887)	14,400,000
TOTAL ASSETS		15,719,946	(863,887)	14,856,059
CURRENT LIABILITIES				
Trade and other payables		1,457,307	÷	1,457,307
Short-term borrowings		2,847,216	**	2,847,216
TOTAL CURRENT LIABILITIES		4,304,523	+	4,304,523
NON-CURRENT LIABILITIES				
Long-term borrowings		9,341,140	-	9,341,140
TOTAL NON-CURRENT LIABILITIES	•	9,341,140	-	9,341,140
TOTAL LIABILITIES (excluding net assets attributable to unit holders)	•	13,645,663		13,645,663
Net assets attributable to unit holders	2b	•	1,210,396	1,210,396
TOTAL LIABILITIES	-	13,645,663	1,210,396	14,856,059
TOTAL EQUITY	20	2,074,283	(2,074,283)	#

war or other than			Note	2006 \$	2005 \$
NO STA	TE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQU ANDARDS (CONT'D)	JIVALENT	S TO INTERNATION	IAL FINANCIAL RE	EPORTING
	,	Note	Previous GAAP At 30 June 2005	Effect of Transition to AIFRS	AIFRS at
			\$	\$	\$
	conciliation of Profit or Loss for 2005				
inve	renue estment property – decrease from cost to valuation		352,097	(863,887)	352,097 (863,887)
•	te-off of acquisition costs)		(oan and		
	ance costs		(310,154)	-	(310,154)
Oth	er expenses		(31,700)	-	(31,700)
Eina	encing costs		10,243	(863,887)	(853,644)
	ributions to unit holders	2c		(30,988)	(30,988)
Net	profit/(loss)		10,243	(30,988)	(884,632)
				(10)	(00 11002)
	es to the reconciliations of equity and profit and at 30 June 2005				
a.	Decrement in investment property to valuation at 30 June 2005. This adjustment in-effect was a write-off of the property acquisition costs (stamp duty & legals) capitalised upon acquisition in accordance with previous GAAP. The valuation at 30 June 2005 is in accordance with the independent valuation shown in the Product Disclosure Statement.				(863,887)
b.	The adjustment to net assets attributable to unit holders is made up as follows:				
	Decrement in Investment property				(863,887)
	Equity reclassification	20			2,074,283
	Total			******	1,210,396
c.	Under previous Australian Accounting Standards ordinary units issued by the Trust were classified as equity instruments in the balance sheet. Due to the Trust having a finite life, AIFRS requires that the units on issue be classified as debt instruments rather than equity instruments. In addition, the Trust has an obligation under its constitution to deliver all net taxable income to the unit holders at the end of each period, consequently the trustees consider that the units on issue will be appropriately classified as a financial liability of the trust under AIFRS. As a result, distributions paid to unit holders are reclassified as finance costs in the income statement.			promo	Activities of the control of the con

		Note	2006 \$	2005 \$
NOTE 3: REVENUE				
Operating activities				
- rent income			1,280,622	344,254
- Interest income		3(a)	20,344	7,843
			1,300,966	352,097
(a) Interest from:				
- Cash at Bank			20,328	7,843
- financial institutions			<u>. 16</u>	*
			20,344	7,843
NOTE 4: PROFIT FROM ORDINARY	Y ACTIVITIES			
Profit (losses) from ordinary activities	has been determined after:			
(a) Expenses				
Borrowing costs:				
- other persons			705,497	310,154
Remuneration of the auditors for				
- audit or review services			14,100	6,000
- taxation services			960	•
Custodian Fees			12,000	3,460
NOTE 5: INVESTMENT IN PROPER	тү			
PROPERTY				
Investment property (at fair value)			14,898,000	14,400,000
troother property (at sail value)			14,020,000	14,400,000
2006 – at Directors valuation.	andMark White as stated in the Product Disc			
2005 – at fildependent valuation by Le	andiman vanne as stated in the Product Disc	osure Si	atement.	
a) 90 Maribyrnong Street Footscra	v (Victoria)			
Purchase Cost	• • • • • • •		14,400,000	14,400,000
Costs of Acquisition (Including stamp	duty and legal costs)		860,812	863,887
otal Cost		•	15,260,812	15,263,887
Contact Date: 24 December 2004	Settlement Date: 18 March 2005			

This property is subject to a registered first mortgage to St. George Bank securing the loan facility disclosed at Note 7.

	Notes	2006 \$	2005 \$
(b) Movements in Carrying Amounts		,	,
Movement in the carrying amounts for each class of property between the year Investment Property	beginning and	the end of the curre	ent financial
Balance at the beginning of the year		14,400,000	
Initial purchase at cost		*	15,263,88
Less write-off acquisition costs			(863,88
Revaluation increase		498,000	(000,00)
Carrying amount at end of year		14,898,000	14,400,000
NOTE 6: PAYABLES			
CURRENT			
Insecured liabilities			
Trilogy Funds Management Ltd		10,229	20,976
Accruals - Other		7,931	17,560
SST Payable		29,777	20,549
Frilogy Capital Services Pty Ltd (Recoverable Expenses)			675,00
Frilogy Capital Services Pty Ltd (Term Deposit Interest) Accruals – Establishment Fee			3,217
Accidate — Establistanciit i ce	٠ د	47,937	720,000 1,457,307
NOTE 7: INTEREST BEARING LIABILITIES			
CURRENT			
Secured liabilities			
nvestec Bank (Australia) Ltd		-	2,077,216
ot George Bank Ltd	-	# ************************************	770,000
	=		2,847,216
ION-CURRENT			
ecured liabilities			
ank loan		0.700,000	0.000.000
t George Bank Ltd		8,790,000	9,360,000
Peferred Borrowing expenses - Note 1 (f)		(14,860)	(18,860)

This loan is secured by registered first mortgage over the 90 Maribyrnong Street Footscray, Victoria property together with a registered fixed and floating charge over the assets and undertakings of the trust.

NOTE 8: NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

	Number of Units on Issue	Contributed Unit	Retained Earnings	Total
		\$	\$	\$
Balance at 1 July 2004	*	•	. •	_
Capital issued during the year	2,902,702	2,902,702		2,902,702
Establishment and equity raising costs		(807,674)		(807,674)
2005 Profit/(Loss) attributable to trust			(853,644)	(853,644)
Sub-total	2,902,702	2,095,028	(853,644)	1,241,384
Financing costs				
 Distributions paid (Note 9) 			(30,988)	(30,988)
Balance at 30 June 2005	2,902,702	2,095,028	(884,632)	1,210,396
Capital Issued during the year	4,543,748	4,543,748		4,543,748
2006 Profit attributable to trust			986,442	986,442
Sub-total			98,734	6,740,586
Financing costs				
 Distributions paid (Note 9) 			(568,083)	(568,083)
Balance at 30 June 2006	7,446,450	6,638,776	(469,349)	6,172,503

NOTE 9: DISTRIBUTIONS PAID

Under the Trust Constitution "Distributable income" may include income and capital components determined in accordance with a defined formula. Income distributions are based on accounting profit determined under generally accepted accounting principles. Capital distributions represent any amount distributed to Unit Holders above accounting profit and are in relation to amortisation of deferred borrowing costs, together with equity returns to investors.

Distributions paid by the Trust are calculated as follows:-

	Notes	2006 \$	2005 \$
Accounting profit/(loss)		986,442	(853,644)
Add amortisation expense AIFRS adjustment		4,000	1,140 863,887
Less non-cash income - revaluation increment		(498,000)	
Income distribution		492,442	11,140
Capital distribution		75,641	19,848
Distribution to unitholders for the year		668,083	30,988

NOTE 10: CASH FLOW INFORMATION

(a)	Dagar	nciliation	of soch
(0)	一下でもひに	I GHICHUIL	Q1 Casil

Cash at the end of the financial year as shown in the statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

68, 51 6	422,467
986,442	(853,644)
(498,000)	, , ,
	863,887
	•
740	(740)
3,788	(32,852)
(11,148)	62,303
4,000	1,140
<u> </u>	(20,000)
485,822	20.094
9,360,000	10,130,000
8,790,000	10,130,000
	0
	986,442 (498,000) 740 3,788 (11,148) 4,000

The major facilities are summarised as follows:

The Syndicate had a loan with Investec Bank (Australia) Limited which was fully repaid in September 2005.

The Syndicate has a partly drawn loan facility of \$9,360,000 (2005: \$10,130,000) with St. George Bank Limited which expires on the 15 March 2010.

The interest rates are fixed.

The loan is secured by a first registered mortgage over the property.

NOTE 11: FINANCIAL INSTRUMENTS

(a) Financial Rate Risk

The trust's financial instruments consist mainly of bank funds and loans from banks.

- The Trust does not have any derivative instruments at 30 June 2006.
- The main risks the entity is exposed to through its financial instruments are interest rate risk.
- Interest rate risk is managed with fixed rate debt. At June 2006 100% of the trust's debt is fixed to March, 2010.
- The trust is not exposed to fluctuations in foreign currencies.

(b) Interest Rate Risk

The trust's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate 2006 %	Fixed Interest Rate 2006 \$	Floating Interest Rate 2006 \$	Non Interest Bearing 2006	Total 2006
Financial Assets:	/9	Ψ	₽	\$	\$
Cash	5		68,516		68,516
Total Financial Assets			68,516		68,516
Financial Liabilities:					
Bank loans and overdrafts	4	-	-	-	•
Bills of exchange and					
promissory notes	7	8,790,000	-	H	8,790,000
Trade and sundry creditors	•	•	•	47,937	47,937
Lease liabilities	•		<u> </u>	-	7
Total Financial Liabilities		8,790,000		47,937	<u>8,837,937</u>
Financial Assets:	Welghted Average Effective Interest Rate 2005 %	Fixed Interest Rate 2005 \$	Floating Interest Rate 2005 \$	Non Interest Bearing 2005 \$	Total 2005 \$
Cash	Б	_	422,467		422,467
Total Financial Assets	J	-	422,467		422,467
Financial Liabilities:					442,500
Bank loans and overdrafts	11	2,077,216	•	•	2,077,216
Bills of exchange and promissory notes	7	10,130,000	pal .	**	10,130,000
Trade and sundry oreditors	₩.		,	1,457,307	1,457,307
Total Financial Liabilities		12,207,216	-	1,457,307	13,664,523

NOTE 12: FEES PAID OR PAYABLE TO RESPONSIBLE ENTITY AND ITS ASSOCIATES

Management Fees	78,282	22,101
Establishment fee accrued as per the PDS (Incorporated in establishment		720,000
costs)	-	
Legal fees - MDRN Solicitors (incorporated in establishment costs)	*	17,182
	78,282	759,283

The establishment fee of \$720,000 due and payable to the manager was accrued at 30 June 2005 and paid during 2005/06.

The management fee payable to the Manager is in accordance with the provisions of the Product Disclosure Statement dated 21 February 2005. The fee is calculated at 0.5% pa of the gross value of the assets of the Trust.

NOTE 13: CUSTODIAN

The Scheme's Custodian is Trust Company of Australia Limited. The Custodian holds title to the assets of the Scheme, in its name on behalf of the Scheme. The total value of assets held by the Custodian at 30 June 2006 is \$14,966,516 (investment property \$14,898,000 and Bank funds \$68,516).

The Custodian is entitled to an annual administration fee of \$12,000.

The relationship between the Custodian and Responsible entity is set out in the Custodial Agreement.

NOTE 14: SEGMENT REPORTING

The Trust operates in one business and geographical segment which is the rental of commercial property in Victoria, Australia.

NOTE 15: SYNDICATE DETAILS

The principal place of business of the syndicate is:
Trilogy Investor Choice Melbourne Campus Office Syndicate
Trilogy Funds Management Limited
Level 10, 241 Adelaide Street
BRISBANE QLD 4000

The principal activity of the syndicate during the financial year was investment.

The Syndicate is a unit trust established by constitution dated 13 December 2004.

TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE DIRECTORS' DECLARATION OF TRUSTEE COMPANY

The directors of Trilogy Funds Management Limited ("The Responsible Entity") declare that:

- the financial statements and notes, as set out on pages 4 to 16 present fairly the syndicate's financial position as at 30 June 2006 and the performance for the financial year ended on that date. In accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- in the directors' opinion there are reasonable grounds to believe that the syndicate will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors of the Responsible Entity.

Director

Mr R. Bacon

Dated this 51 day of October 2006



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BUSINESS I FINANCIAL ADVISORS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF TRILOGY INVESTOR CHOICE MELBOURNE CAMPUS OFFICE SYNDICATE

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Trilogy Investor Choice Melbourne Campus Office Syndicate for the period ended 30 June 2006 included on the Trilogy Capital Group web site. The fund's directors are responsible for the integrity of the Trilogy Capital Group web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other Information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Scope

We have audited the financial report of Trilogy Investor Choice Melbourne Campus Office Syndicate for the financial year ended 30 June 2006 comprising of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and notes to the financial statements. The trustee is responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the syndicate.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the trust deed so as to present a view which is consistent with our understanding of the syndicate's financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Trilogy Investor Choice Melbourne Campus Office Syndicate presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia, the financial position of Trilogy Investor Choice Melbourne Campus Office Syndicate as at 30 June 2006 and the results of its operations and its cash flows for the financial year then ended.

MGI White Hancock

C M Douglas Partner

Brisbane

6 October 2006

- 18 -

MGI White Hancock Chartered Accountants
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Electronic Statement

Willdestpac

Business Cheque Plus Account

Branch Name and Address Brisbane 260 Queen Street Brisbane QLD 4000

BSB

Account Number

Account name
TRILOGY FUNDS MANAGEMENT LIMITED (FORMERLY MDRN INVESTMENTS

Customer Number

64864890 TRILOGY FUNDS MANAGEMENT LIM..

Account enquiries The Call Westpac Telephone Banking 132 032 within Australia +61 2 9293 9270 if calling from overseas

Detail	s of your account	From Last Statem	ent Dated 20 Dec 1	2012 to 18 Jan 2013
Date	Description of transaction	Debit	Credit	Balance
2012	STATEMENT OPENING BALANCE	\$\$\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\		714,978.22

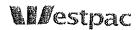
Statement No. 104 Page 1 of 4



Business Cheque Plus Account

Account name
TRILOGY FUNDS MANAGEMENT LIMITED (FORMERLY MDRN INVESTMENTS

Details	s of your account	From Last Statem	ent Dated 20 Dec 2	2012 to 18 Jan 2013
Date	Description of transaction	Debit	Credit	Balance
28 Dec	Direct Entry Drawing De Draw Id407077 Tfm			AND THE PERSON OF THE PERSON O
**************************************	Cheque Account	845,665.67		175,211.54



Business Cheque Plus Account

Account name
TRILOGY FUNDS MANAGEMENT LIMITED (FORMERLY MDRN INVESTMENTS

Details of your account

From Last Statement Dated 20 Dec 2012 to 18 Jan 2013

Date

Description of transaction

Debit

Credit

Balance

Further information in relation to your account, including details of product benefits and applicable fees and charges, is available on request. That information is also contained in the Product Disclosure Statement (PDS) or other disclosure document for your account. For a copy of that document, or if you have any other enquiries, you can call Telephone Banking on 132 032 from Australia or +61 2 9293 9270 from overseas.

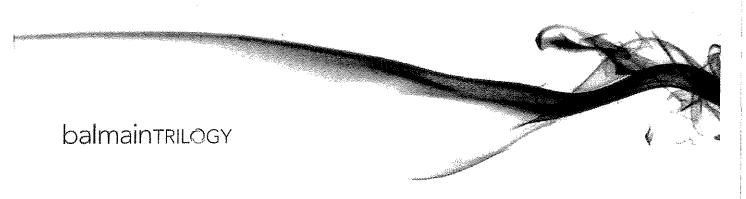
The above Closing Balance amount may not be the same as the balance payable to you on closure of your account (the 'termination value'). Details of the termination value can be obtained by calling Telephone Banking on the numbers quoted above. Further information on how to close accounts, including calculation of the termination value, is contained in the Product Disclosure Statement (PDS) booklet or other disclosure document for your account.

We have an internal process for handling and resolving any problem you may have with, or complaints relating to, your account or this product. Information about this process can be found in the Product Disclosure Statement (PDS) or other disclosure document for your account, or you can contact us on 1300 130 467.

Convenience at your fingertips!

Pay your bills, transfer funds or just enquire on your account balances. It's as simple as calling Telephone Banking

Statement No. 104 Page 3 of 4



12 June 2013

Dear Unitholder

Following our Fund Update in April, Balmain Trilogy, as the Investment Manager of the Pacific First Mortgage Fund (the Fund), is pleased to provide you with a detailed update in respect to litigation and the remaining assets in the Fund. A full Asset Review schedule is provided as part of this update.

CBA finance facility

As outlined in our letter of 11 April 2013, the six-month extension of the Fund's finance facility (Facility) with the Commonwealth Bank of Australia (CBA) has been finalised. This will enable the orderly realisation of the Fund's residual assets and the gradual reduction of the Facility to continue. Further extension of the Facility was necessary for the continuation of the Fund as a going concern and the orderly realisation of assets in the ordinary course of business (as detailed in the December 2012 Half-Year Financial Report).

The extended Facility contains the following pertinent terms:

- expiry date of 28 August 2013;
- 75% of net settlement proceeds banked by the Fund to be remitted to CBA within five business days and applied to the principal debt;
- no further capital repayments, distributions and redemptions without CBA's prior written consent; and
- mandatory reduction of the Facility to \$6 million by 29 March 2013.

Subsequent to 31 December 2012, in accordance with the above terms, we have repaid an additional \$7.10 million to CBA, thereby reducing the debt under the Facility to \$2.90 million and adhering to the abovementioned 29 March 2013 mandatory amortisation covenant. Since Trilogy Funds Management Limited's (Trilogy) appointment as Responsible Entity and Balmain Trilogy's appointment as Investment Manager, we have reduced the debt owing under the Facility by approximately \$88 million (\$0.10 per unit).

The continuous allocation of cash resources towards debt reduction is required under the terms of the extended agreement. The original Facility was provided to City Pacific Limited (Receivers and Managers Appointed) (In Liquidation) (City Pacific), the former responsible entity of the Fund, in March 2005. In order to secure repayment of the Facility, CBA took a first-ranking security over all existing and future assets of the Fund. Upon replacing City Pacific as the responsible entity of the Fund in July 2009, Trilogy inherited the Fund's contractual obligations under the Facility. We remain committed to strict compliance with these obligations, which comprise an integral aspect of the responsible management of the Fund.

Litigation

Federal Court proceedings against former City Pacific directors and officers

The Fund's claim against former directors and officers of City Pacific in the Federal Court is progressing. The claim asserts breaches of statutory duties under the Corporations Act 2001 (Cth) by Messrs Sullivan, McCormick, Donaldson and Swan in their capacity as former credit committee members, officers and/or directors of City Pacific. At the centre of the original claim were loans provided by City Pacific to borrowing companies Bullish Bear Holdings Pty Ltd (Receiver and Manager Appointed) (Bullish Bear) and Atkinson Gore Agricultural Pty Ltd (Receiver and Manager Appointed) (In Liquidation) (AGA) between 2006 and 2009, which caused substantial losses to the Fund.

Trilogy filed and served an Amended Statement of Claim on 8 March 2013, incorporating additional claims relating to, among others, alleged backdating of documentation and failure to prevent additional improper advances granted by City Pacific in relation to the AGA facility.

A directions hearing was held on 14 March 2013 before Justice Jacobson in place of Justice Emmett, who was appointed to the NSW Court of Appeal effective 7 March 2013. Messrs Sullivan, Swan and Donaldson were required to file their defence to Trilogy's Amended Statement of Claim by 5 April 2013 and filed this with the court on 17 April 2013. Trilogy filed its evidence in reply, as well as its supplementary evidence and tender bundle, on 13 May 2013.

Defendants' application to transfer proceeding

In February 2013 the defendants advised that they would apply for a transfer of the action to the Supreme Court of Queensland, where a separate recovery action against guarantors, Messrs Hartnett and Perry, is being conducted arising out of loan advances to Bullish Bear. The Court directed that any such application be lodged by 8 March 2013. On 6 March 2013 Trilogy's solicitors sent a letter to the defendants' solicitors detailing why such transfer application would fail. If the proceeding was transferred to the Supreme Court of Queensland this would likely have resulted in a significant delay in obtaining a trial date and substantial increase in costs. The defendants chose not to lodge their application by 8 March 2013. They subsequently delayed more than two months before ultimately lodging their application on 15 May 2013, a few days before the matter was listed for a pre-trial directions hearing at which Trilogy had indicated it would be seeking a trial date.

In narrowing the focus of Trilogy's claim to the AGA advances, the defendants' application to transfer the case to the Supreme Court of Queensland was made redundant. On 21 May 2013, during the pre-trial directions hearing, Justice Griffiths dismissed the transfer application. Trilogy has always maintained the transfer application would fail. However, the hearing of that application itself would have caused delay and additional costs. This has now been avoided. The recovery action against Messrs Hartnett and Perry in relation to the Bullish Bear loan facility separately continues in the Supreme Court of Queensland.

Article in the Gold Coast Bulletin

On 24 May 2013 an article was published in the Gold Coast Bulletin regarding some of the events referred to above. There were a number of inaccuracies reported in that article, as detailed below:

- 1. The title of the article, "City Pacific in King Tide win", is misleading. Trilogy's claim in respect of advances made to Bullish Bear has been withdrawn so as to reduce the number of issues in dispute and focus on the claims against the defendants regarding loan advances made to AGA over lands known as "Saddleback" (situated in Canungra, in the Gold Coast hinterland). The court has not considered (let alone determined) the Bullish Bear claims. This is not a "win" for the defendants.
- 2. The reference to the \$25 million claim regarding Bullish Bear is inaccurate. The claim relating to Bullish Bear was for \$16.9 million plus interest, as was set out in the claim.
- 3. Similarly, the reference to the \$35 million claim still being pursued is inaccurate. The claim relating to the loan advances to AGA is for \$37.2 million plus interest, as detailed in the Further Amended Statement of Claim filed by Trilogy on 22 May 2013. It follows that the Bullish Bear claim did not constitute "half" of the current action.
- 4. There is no "second case" regarding Bullish Bear brought against the defendants. The AGA and Bullish Bear claims formed part of a single action commenced by Trilogy against the defendants in April 2012. Trilogy's recovery action against the Bullish Bear guarantors, which is proceeding in the Supreme Court of Queensland as indicated above, is a separate and distinct claim.

IMF funding of the action against former City Pacific directors and officers and related claims

For reasons of its own IMF has elected not to continue funding the Fund's action against former City Pacific directors and officers and related claims. The Fund has incurred no costs in relation to the examinations, investigations and other activities undertaken by IMF in pursuing these matters to date. However, as detailed above, the Fund continues to pursue its action against previous directors and officers of City Pacific with the benefit of the investigations and discoveries achieved whilst IMF were funding this claim. We will continue to vigorously pursue this action.

Action against Kosho and City Co in the Supreme Court of Queensland

In May 2010 Kosho Pty Ltd (Receiver and Manager Appointed) (Kosho), a borrower of the Fund, and City Co Pty Ltd (Receiver and Manager Appointed) (City Co), a third party mortgagor of the Fund, commenced an action against Trilogy (as Responsible Entity of the Fund) in the Supreme Court of Queensland (Kosho Proceedings). Kosho alleged that Trilogy had breached the 2009 Finance Facility granted by the Fund to it. Kosho claimed damages of \$80 million (later reduced to a claim for damages of approximately \$40 million). Consequently, in September 2010 Trilogy commenced a recovery action against the guarantor of the 2009 Kosho Finance Facility, also in the Supreme Court of Queensland (Guarantee Proceedings).

Judgment in both proceedings was handed down by Justice Applegarth on Wednesday, 29 May 2013, who determined the following:

- Trilogy was successful in the Kosho Proceedings, with all of the claims made by Kosho and City Co dismissed, save one discrete claim (see below); and
- Trilogy was wholly successful in its claim in the Guarantee Proceedings.

The Court found that:

- Trilogy:
 - had not breached the 2009 Finance Facility in failing to advance to Kosho funds under the Finance Facility;
 - did not engage in misleading and deceptive conduct;
 - did not engage in unconscionable conduct; and
- Kosho and City Co failed to prove their case and failed to establish the basis upon which their claimed loss was calculated. Consequently, the Court dismissed Kosho's and City Co's claim for damages.

The Court otherwise awarded Kosho and City Co nominal damages of \$10 on a discrete part of their claim. In the Guarantee Proceedings, the Court awarded judgment in favour of Trilogy in the order of \$14.5 million. Although costs have yet to be ordered by the Court, in its reasons for judgment, the Court expressed its preliminary view that Trilogy should be awarded full costs on an indemnity basis in the Guarantee Proceedings and 85% of its costs on a standard basis in the Kosho Proceedings. The matter is next in Court in mid-June 2013 for the formalisation of orders.

Asset update

The management and realisation of the Fund's remaining mortgage assets continues amid uncertain market conditions. The following assets were sold by the Fund between 1 July 2012 and 30 May 2013:

Asset No.	Location	Asset type	Securities sold	Gross recovery	Status
1	Surfers Paradise QLD	Commercial Unit	1	\$1,250,000	Sold
3	Clagiraba QLD	Rural Residential Development	16	\$5,135,000	Partly Sold
4	Hervey Bay QLD	Vacant Residential Development Site	2	\$134,000	Søld
18	Wakerley OLD	Completed Residential Dwellings	4	\$5,355,000	Sold
20	Braeside VIC	Vacant Industrial Lots	2	\$1,866,880	Partly Sold
24	Hope Island QLD	Completed Residential Units	5:	\$1,930,000	Sold
26	Broadbeach QLD	Residential Units	11	\$2,782,000	Sold
28	Hervey Bay QLD	Vacant Residential Land	1	\$650,000	Sold
30	Southport QLD	Independent Living Units	3	\$1,860,000	Partly Sold
37	Martha Cove VIC	Vacant Land and Marina Berth	2	\$1,210,000	Partly Sold
39	Martha Cove VIC	Completed Residential Dwellings	4	\$2,320,000	Sold
39	Martha Cove VIC	Precinct 1 - Subdivided Residential Lots	12	\$2,364,066	Partly Sold
Fund's Property	Broadbeach QLD	Residential Units	1	\$225,000	Sold
Total	Account on the Company of the Company of Section 18 Section 18 Section 18 Section 18 Section 18 Section 18 Sec		64	\$27,081,946	H. Market S. H. C. Langer and M. C. Langer and Specify Specify (1997).

As previously indicated, 75% of net asset disposal proceeds received by the Fund are required to be remitted to CBA to reduce the debt owing under the extended Facility.

As at 31 March 2013, the impaired value of the remaining mortgage assets of the Fund was \$110.11 million. As shown in Figure 4 (below), 67% of the Fund's remaining assets (by number) comprise vacant land (primarily residential) located on the Gold Coast and in Victoria. As we've previously advised Unitholders, demand for unimproved development properties remains soft in the aftermath of the Global Financial Crisis due to a shortage in development and construction finance and an oversupply of properties of a similar nature to the Fund's in the above markets.

Figure 1 shows the aggregate net value of assets per location as a proportion of the total net asset value of the Fund as at 31 March 2013. Figure 2 shows the aggregate number of assets per location as a proportion of the total number of Fund assets as at 31 March 2013. As these Figures show, the majority of the Fund's remaining assets by number are concentrated in Martha Cove and are more evenly distributed by value between Martha Cove, South East Melbourne and the Gold Coast.

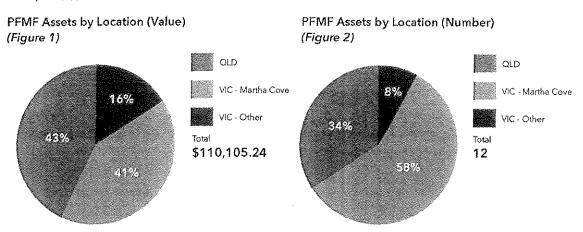
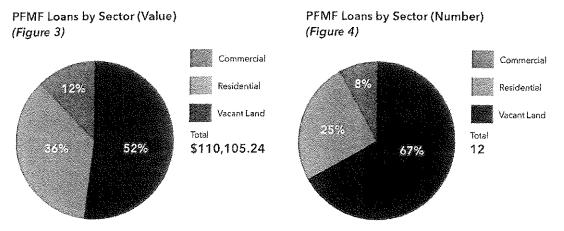


Figure 3 shows the aggregate net value of assets per sector as a proportion of the total net asset value of the Fund as at 31 March 2013. Figure 4 shows the aggregate number of assets per sector as a proportion of the total number of Fund assets as at 31 March 2013. As these Figures show, the remaining assets of the Fund chiefly comprise unimproved, vacant development land by both value and number.



Our realisation strategy centres on maximising the value of assets and is underpinned by comprehensive, well-funded national or regional marketing campaigns (depending on the nature and value of assets) in multiple media outlets in order to achieve fair market value.

The remaining assets of the Fund as at 30 May 2013 have been classified according to the following categories, which indicate the timeframe in which recoveries are expected to be achieved. Detailed information on each of the remaining assets is provided in the full Asset Review, on page 9 of this Update.

Category	Description	No. of Loans	% of Overall Assets (by No.)	% of Remaining Portfolio (by No.)	% of Remaining Portfolio (by Value)
Short Term	Recoveries expected in the next 6 months	3	7.3%	30.0%	14.7%
Medium Term	Recoveries anticipated in the coming 6-12 months	0	0%	0%	0%
Long Term	Recoveries expected in 1 year or longer	2	4.9%	20.0%	44.5%
Sold or Refinanced	Préviously sold or refinanced (debt sale)	31	75,6%	0%	0%
Martha Cove	Assets relating to Martha Cove	5	12.2%	50.0%	40,9%
Total		41	100%	100%	100%

Sale of Assets 1 and 34

Assets 1 and 34 comprise two unimproved development sites located on the Gold Coast. Asset 1, known as the "Hill Precinct", is 4.44 hectares and is located in Carrara; Asset 34, known as the "River Precinct", is 40.46 hectares and is located in Nerang. The properties were taken to market separately by their respective receivers and managers in April 2013 as part of a comprehensive, nationwide 'expressions of interest' (EOI) campaign managed by Savills Gold Coast, which closed on 30 April 2013.

The properties are now under unconditional contracts, which are scheduled to complete in the coming weeks. While the sales have been the subject of print and internet media coverage, we are unable to comment on contract terms due to confidentiality. We are pleased to inform Unitholders, however, that the sales were above market value and the respective valuations obtained by the receivers and managers in relation to these properties.

Martha Cove

Sale of Precincts 1, 2, 8 and 9

As indicated in previous Fund updates, following the adoption of the Martha Cove individual precinct sale strategy in late 2012, we commenced negotiations with parties that had expressed interest in particular Precincts in the portfolio. We are pleased to announce that the following Precincts are now under contract:

Precinct	Description	Details	Size (Ha)
1	Completed Land Lots	80 subdivided residential land lots	2.18
2	Apartment Sites	5 vacant super-lots containing Master Plan approval for 138 apartment sites	3.21
8	Stage 5 Marina	Inland harbour marina with Master Plan approval for 308 berths (104 having been completed)	3.78
9	Retirement Village Site	Master Plan approval for 409 independent living units	6.00

The above sales are (in part) the product of an intensive 18-month negotiation process, which commenced after the close of the October 2011 EOI campaign. The sale of these Precincts will produce an aggregate gross recovery of approximately \$30.46 million, which will be incrementally received by the Fund over a 12-month period. Settlement of residential land lots comprising Precinct 1 has commenced.

While the terms of these sales remain confidential, we are firmly of the view that their corresponding recoveries represent the fair market value of the constituent Precincts. The outcome is particularly favourable when considered in light of the \$58 million 'in one line' offer we received for the entire Martha Cove portfolio, as:

- 1. the \$30.46 million aggregate gross recovery attaches to four of the nine Martha Cove Precincts, which represents 6% (by area) of the overall portfolio (approximately 15 out of 256 hectares);
- 2. the Precincts under contract are considered peripheral and lower in value than the remaining Precincts, mainly due to their physical location and current Master Plan approvals; and
- 3. In light of the unification of Precinct 4 (as detailed below), the Fund's remaining Martha Cove exposures will include the only Master Plan-approved commercial precinct in the estate, which is expected to bolster the saleability and marketability of the remaining Precincts (particularly Precincts 3, 4 and 6).

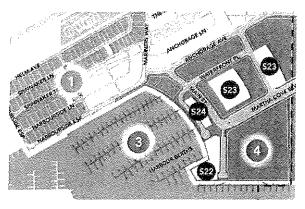
Acquisition of the Commercial Precinct

Balmain Trilogy has arranged the purchase the 'Commercial Precinct' on behalf of the Fund; the property consists of the following three separate lots:

Lot	Plan of Subdivision	Area (SQM)	Master Plan approval (residential dwellings)
S22	435310J	2,802	34
S23	435310J	9,000	
S24	435310J	1,012	10
		12,814	44

These lots sit within (and are landlocked by) Precinct 4 and adjacent to Precinct 3 but were not actually controlled by the Fund historically. Figures 5 and 6 below show the proximity of the Commercial Precinct relative to Fund controlled assets.

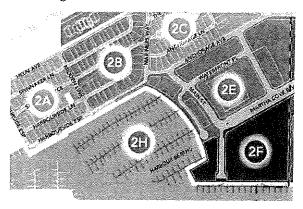
Figure 5: Master Plan highlighting the Commercial Precinct relative to Precincts 3 and 4



Precinct 3
Stage 2 Marina

Precinct 4
Development Site

Figure 6: Master Plan showing the nearby Martha Cove Stages and lots



Stage 2H (lot \$17) -

S

Stages 2F & 2E -

The split in ownership between these development lots has historically created considerable issues (and increased costs) for the Fund and the vendor of the Commercial Precinct. These issued have negatively affected the saleability of the respective Precincts due to the lack of feasible development options. As such, when the Commercial Precinct was put on the market in its current, unimproved condition, we seized the opportunity to improve the Fund's land holding position.

Precincts 3 and 4, with the addition of the Commercial Precinct, form a cohesive land parcel featuring the following infrastructure and approvals:

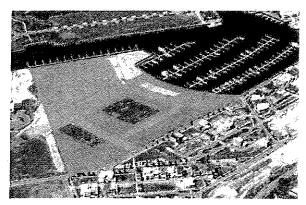
- Precinct 3: an existing, fully-operational, income-producing 234-berth marina;
- · Commercial Precinct:
 - o Master Plan approval for 44 residential dwellings on lots S22 and S24 with unobstructed water views that stretch to the south of the portfolio (refer to Figures 7 and 8, below); and
 - potential for a 2,400 SQM retail/commercial development on lots S23 and S24 (subject to Council approval);
- Precinct 4:
 - o Master Plan approval for 60 waterfront apartments; and
 - 31 completed marina berths (highlighted in green on Figure 7).

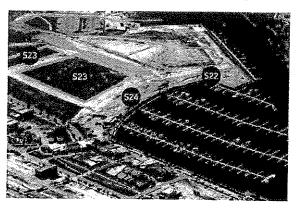
This represents a highly attractive investment proposition and will form the most valuable section of the Martha Cové asset portfolio.

Thus, we regard the acquisition as a commercially beneficial and necessary defensive strategy aimed at protecting and enhancing the value of the Fund's exposures at Martha Cove, which is respectfully believed to be in the best interests of Unitholders.

While we are not at liberty to divulge the terms of the acquisition, we can advise Unitholders that the transaction is scheduled to settle after the maturity of the extended CBA Facility. The acquisition will not conflict with or impinge on its covenants, ensuring that the Fund continues to adhere to its contractual obligations under the Facility.

Figures 7 and 8: approximate surveys of Precinct 4 and the Commercial Precinct (in green and yellow, respectively) showing their relative position and proximity to existing marina infrastructure and waterways.





Remaining Martha Cove Precincts

The following Martha Cove Precincts remain unsold and will be progressively taken to market in the coming months as part of the Fund's individual precinct realisation strategy:

Precinct	Description	Details.	Size (Ha)
3.	Stage 2 Marina	234-berth marina spanning four fingers and including on-water facilities	3,88
4	Development Site	2 super-lots comprising 31 completed marina berths and Master Plan approval for 60 apartments	4.04
5	Stage 3 Marina and Boat Ramp	Master Plan approval for 51 marina berths and future designation of a 200-dry berth facility (subject to Council approval)	4.76
6	Waterfront Land Lots	Brindabella Point, comprising 21 fully-serviced residential land lots, each with a completed corresponding marina berth	2.52
7	Balance Land	Vast rural land holding adjacent to the established Martha Cove portfolio comprising seven land parcels	225.65

Hardship

The Fund's hardship program continues to be suspended until further notice due to the Fund's liquidity constraints and in line with the terms of the extended CBA Facility. Consequently, no applications can be considered at this time.

Capital Repayments

As indicated in April's Fund Update, subject to the materialisation of our asset recovery projections, Fund's liquidity and the timely repayment of the CBA Facility, we expect to recommence the return of capital in the fourth quarter of the 2013 calendar year.

Please do not hesitate to contact Balmain Trilogy Client Services on Freecall 1800 194 500 or email contact@balmaintrilogy.com.au should you have any queries.

Yours sincerely,

Rodger Bacon

Joint Chief Executive

Andrew Griffin

Joint Chief Executive

ASSET REVIEW

SECURITY PARTICULARS

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 1

Carrara QLD

Vacant Residential Land

Under Contract - Short Term



CURRENT STATUS

Security is subject to an unconditional contract of sale scheduled to settle in the coming weeks.

ASSET 1

Surfers Paradise QLD

Commercial Unit

SOLD



CURRENT STATUS

Security sold in May 2013 and the net proceeds have been received by the Fund.

ASSET 2

Broadbeach QLD

Completed Commercial Unit

30LD



CURRENT STATUS

Security sold. Full amount of the loan recovered and paid to the Fund.

ASSET 3

Clagiraba QLD

Rural Residential Development

Short Term



CURRENT STATUS

Realisation of the security continues, with 22 of the 25 lots having been sold and the net proceeds have been received by the Fund.

ASSET 4

Hervey Bay QLD

Vacant Residential Development Site SOLD



CURRENT STATUS

Two vacant land lots comprising the security were sold together in January 2013 and the proceeds have been received by the Fund.

ASSET 5

Hervey Bay QLD

Vacant Residential Development Site

30)LD



CURRENT STATUS

Full recovery achieved through realisation of the security.

ASSET 6

Sovereign Islands QLD

Completed Residential Dwelling

30(10)



CURRENT STATUS

Security sold following completion of minor works and the net proceeds have been received by the Fund.

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 7

Pimpama QLD

Vacant Residential Land

SOLD



CURRENT STATUS

Security sold and the net proceeds have been received by the Fund.

ASSET 8

Surfers Paradise QLD

Vacant Commercial Development Site

SOLD



CURRENT STATUS

All security properties sold and the net proceeds have been received by the Fund.

ASSET 9

Surfers Paradise QLD

Residential and Commercial Units

SOLD



CURRENT STATUS

All security properties sold and the net proceeds have been received by the Fund.

ASSET 10

Surfers Paradise QLD

Residential Development Site and Units

SOLD



CURRENT STATUS

All security properties sold and the net proceeds have been received by the Fund.

ASSET 11

Spring Hill QLD

Part completed Residential Units

50(10)



CURRENT STATUS

All security properties sold following completion of construction works and the net proceeds have been received by the Fund.

ASSET 12

Broadbeach QLD

Completed Residential Units

SOLD



CURRENT STATUS

All security properties have been sold. The guarantor to the loan has been declared bankrupt and the appointed trustee in bankruptcy is investigating potential recovery from the estate.

ASSET 13

Broadbeach QLD

Completed Residential Units

SOLD



CURRENT STATUS

All security properties have been sold. The guarantor to the loan has been declared bankrupt and the appointed trustee in bankruptcy is investigating potential recovery from the estate.

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 14

Waitara NSW

Completed Residential Units

SOLD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 15

Hope Island QLD

Completed Residential Land Lots

SOLD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 16

The Entrance NSW

Part completed Residential units

50)10



CURRENT STATUS

All 43 real property securities have been sold and the net proceeds have been received by the Fund.

ASSET 17

Melbourne VIC

Completed Residential Units

S(0)LD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 18

Wakerley QLD

Residential Development Site

SOLD



CURRENT STATUS

Realisation of Stage 1 of the development, comprising 31 residential dwellings, was completed in October 2012. Stages 2 and 3 were sold in February 2013 and the net proceeds have been received by the Fund.

ASSET 19

Melbourne VIC

Completed Residential Units

50)LD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 20

Braeside VIC

Vacant Commercial Site

Long Term



CURRENT STATUS

We continue to pursue the orderly realisation of this 29-hectare industrial site (comprised of six allotments). One of the lots, which has been subdivided into 34 sub-lots, has been taken to market via a national auction campaign (advertised in print and electronic media) managed by Savills and CBRE, which culminated in an on-site auction in May. Subsequently, 7 sub-lots have gone under contract or under offer (and are expected to go to contract shortly).

The five unimproved development lots will be gradually released to the market.

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 21

Varsity Lakes QLD

Completed Commercial Units

SOUD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 22

Heidelberg VIC

Part Completed Residential Units

S(0)LD)



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 23

Canungra QLD

Vacant Land

S(0)LD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 24

Hope Island QLD

Completed Residential Units

S(0) (a)



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 25

Surfers Paradise QLD

Residential Units

SOLD



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 26

Broadbeach QLD

Residential Units

S(E)L(b)



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund. Recovery action against the guarantors to the loan continues.

ASSET 27

Pimpama QLD

Residential Land Lots

5010



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 28

Hervey Bay QLD

Vacant Residential Land

5(0)(1)



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 29

Labrador QLD

Vacant Retirement Village Site

S(0)LD)



CURRENT STATUS

All security properties have been sold and the net proceeds have been received by the Fund.

ASSET 30

Southport QLD

Completed Vertical Retirement Village and Commercial Units

Long Term



CURRENT STATUS

Balmain Trilogy has procured the financial and operational revitalisation of the asset, which resulted in higher occupancy and trading, thereby reducing its ongoing financial reliance on the Fund. A new marketing campaign will be implemented shortly to capitalise on the improvement of the offering, which consists of retirement units, commercial amenities and comprehensive onsite care capabilities. Action against the borrower continues.

ASSET 31

Martha Cove VIC

Precinct 9 - Retirement Village Site

Medium Term - Under Contract



CURRENT STATUS

Under contract as outlined in the body of this letter.



Gold Coast QLD

Completed Commercial
Development and Marina Berths

SOLE



CURRENT STATUS

Security property has been sold and the net proceeds have been received by the Fund.

ASSET 33

Surfers Paradise QLD

Residential Development Site

Sells



CURRENT STATUS

Security property has been sold and the net proceeds have been received by the Fund.

ASSET 34

Carrara QLD

Vacant Residential Site

Under Contract - Short Term



CURRENT STATUS

Security is subject to an unconditional contract of sale scheduled to settle in the coming weeks.

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 35

Martha Cove VIC

Completed Residential Dwellings

5(0)(0)



CURRENT STATUS

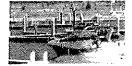
Security property has been sold and the net proceeds have been received by the Fund.

ASSET 36

Martha Cove VIC

Precinct 3 - Stage 2 Marina

Long Term



CURRENT STATUS

Subject to the Martha Cove development precinct strategy.

ASSET 37

Martha Cove VIC

Precinct 2 - Apartment Site

Medium Term - Under Contract



CURRENT STATUS

Under contract as outlined in the body of this letter.

Martha Cove VIC

Precinct 8 - Stage 5 Marina

Medium Term - Under Contract

CURRENT STATUS

Under contract as outlined in the body of this letter.

Martha Cove VIC

Precinct 5 - Stage 3 Marina & Boat Ramp

Long Term

CURRENT STATUS

Subject to the Martha Cove development precinct strategy.

Martha Cove VIC

Precinct 6 - Waterfront Land Lots

Long Term

CURRENT STATUS

This site is subject to the Martha Cove development precinct strategy.

Martha Cove VIC

Precinct 7 - Balance Land

Long Term

CURRENT STATUS

Security will be taken to market in the coming months.

ASSET 38

Martha Cove VIC

Completed Residential Dwellings

SOLD



CURRENT STATUS

Security property has been sold and the net proceeds have been received by the Fund.

SECURITY PARTICULARS

TARGET REALISATION

LOCATION

ASSET TYPE

ASSET 39

Martha Cove VIC

Precinct 1 - Completed Land Lots

Under Contract - Partly Sold



CURRENT STATUS

Under contract as outlined in the body of this letter.

ASSET 40

Martha Cove VIC

Precinct 4 - Development Site

Medium - Long Term



CURRENT STATUS

This site is subject to the Martha Cove development precinct strategy.

ASSET 41

Surfers Paradise QLD

Vacant Residential Development Site

Refinanced



CURRENT STATUS

Full loan recovery has been made by the Fund.

The information provided herein is provided by Trilogy Funds Management Limited ACN 080 383 679 (Trilogy), AFS Licence 261425 in its capacity as Responsible Entity of the Pacific First Mortgage Fund ARSN 088 139 477 (Fund). The information contained herein is of a general nature and does not constitute financial product advice. This update has been prepared without taking into account any person's objectives, financial situation or needs. Because of that, each person should, before acting on this update, consider its appropriateness, having regard to their own objectives, financial situation and needs. The information contained in this update is current as at the date of this update and is subject to change without notice. Past performance is not an indicator of future performance. Investment in the Fund is subject to investment risk, including possible delays in payment and loss of income and principal invested. Neither Trilogy nor its associates, related entities or directors guarantee the performance of the Fund or the repayment of monies invested.

Our Ref: AKB.AEF.384396 Your Ref:



8 July 2013

CONFIRMATION OF EMAIL

By Email: SRussell@Russellslaw.com.au; dpyers@russellslaw.com.au; icopley@russellslaw.com.au

Sent. 8 / 7 / 2013 By. AX Made Errau/Po51

Russells Level 21 300 Queen Street BRISBANE QLD 4000

Attention: Mr Stephen Russell

Dear Sirs

Raymond & Vicki Bruce v LM Investment Management Limited (Administrators Appointed) in its capacity as Responsible Entity of the LM First Mortgage Income Fund and The Members of The LM First Mortgage Income Fund (FMIF)

We refer to your letter dated 14 June 2013.

Your letter dated 3 May 2013 related to our clients' then proposed amendment to apply for access to the books and records, an amendment not ultimately pursued by our clients.

With respect, the conflicted position of your client, LM Investment Management Limited (LMIM), will not be remedied by your client's administrators offering to facilitate access to the books and records of LMIM. Access to the books and records is a moot point unless an independent responsible entity is appointed to properly investigate claims against LMIM, its insurers or any third parties and has the power to pursue claims identified for the benefit of unit holders.

Your client's administrators, in Ms Muller's evidence and the submissions filed to date on behalf of your client, appear to confirm that they have no obligation to investigate claims for the benefit of unit holders. Rather, it is asserted that the administrators' role is to leave it to unit holders to investigate claims and lodge proofs of debt (in relation to potential claims against LMIM) and otherwise to investigate LM's directors and report any breaches to ASIC.

These proceedings were brought by Mr and Mrs Bruce with the aim of facilitating the appointment of an independent responsible entity. Independence of a responsible entity is paramount to the protection of unit holders' interests and one of the benefits in having an independent responsible entity is that it may investigate any potential claims for the benefit of unit holders, including claims against the previous responsible entity and its insurers.

Lawyers

Sydney • Melbourne Brisbane • Adelaide

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Anne Freeman
Partner
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afreeman@piperalderman.com.au

To: Russells Date: 8 July 2013 PiperAlderman

Our Ref:

AKB.AEF.384396

Our clients should not be expected to undertake or fund investigations which should properly be undertaken by the responsible entity. The responsible entity has a duty to act in the interests of the unit holders and that duty extends to bringing claims (including claims for breach of trust) on behalf of the trust and ultimately for the benefit of unit holders.

Whilst we appreciate your client's administrators' offer to review the books and records, it does not remedy the principal concern, namely that an independent responsible entity with the power to bring claims for the benefit of unit holders must first be appointed, as, otherwise the investigation of claims and the books and records will be a moot point.

Yours faithfully Piper Alderman

Amanda Banton

Partner



LM First Mortgage Income Fund

407314 089 349 235

Incorporating:-

- > Flexi Account and Fixed Term Investment
- > LM Savings Plan
- Currency Hedged Fixed Term Investment
- > Product Disclosure Statement & Application Form Issued 10 April 2008

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How to use this Product Disclosure Statement

This Product Disclosure Statement ("PDS") is provided and issued by LM Investment Management Ltd as responsible entity for the LM First Mortgage Income Fund ("Fund"). Investors should read the entire PDS and any supplementary PDS before making a decision to invest,

This PDS describes the main features of the LM First Mortgage Income Fund, and the investment options in the Fund, which are the Flexi Account, the Australian Dollar Fixed Term options, the Currency Hedged Fixed Term options, and the regular savings plan option known as the LM Savings Plan, and contains the Application Form.

This PDS also provides general information in relation to LM Investment Management Ltd ("LM", "Manager", "we", "us", "our"), material documents and other relevant matters. It helps investors to decide whether the product offered will meet their needs and enables them to compare this product with others they may be considering.

Important information

No person is authorised to give any information or to make any representation in connection with the offer of investment described in this PDS which is not contained in this PDS. Any information or representation not so contained may not be relied on as having been authorised by the Manager in connection with this offer.

This PDS is an offer which is available to persons receiving the electronic PDS within Australia but does not constitute an offer in any jurisdiction where, or to any persons to whom, it would be unlawful to offer this PDS. It is the responsibility of any overseas applicant to ensure compliance with all laws of any country relevant to their application. The return of a duly completed Application Form will be taken to constitute a representation and warranty that there has been no breach of such laws and that all necessary approvals and consents have been obtained. An application may only be accepted on an Application Form which forms part of this PDS.

This PDS should be read in its entirety. In particular it is important that investors consider the risk factors that could affect the performance of the Fund. None of an investor's objectives, financial situation or needs has been taken into account in this PDS and investors should carefully consider their personal circumstances before deciding whether to invest in the Fund. If after reading the PDS an investor has any questions regarding its contents or the procedure for investing they should contact their financial or other professional adviser. Past performance should not be taken as an indicator of future performance. Neither the Manager nor the custodian gives any guarantee with respect to the performance of the Fund, the payment of income, or the repayment of capital by the Fund.

All monetary amounts in this PDS are references to Australian dollars, unless stated otherwise.

The Manager may change any of the terms and conditions in this PDS. Notice of material changes will be given to investors, normally in the form of a replacement or supplementary PDS.

Market of the Configuration of

LM Investment Management Ltd

LM Investment Management Ltd ("LM") is a privately owned, Australian funds management company with national and international operations. With a specialist focus on the mortgage trust sector, LM manages one of Australia's largest mortgage trusts, the LM First Mortgage Income Fund ("Fund"). Through its management of the Fund, LM enjoys active participation and recognition as a lender within Australia's business and property sectors.

The Australian Mortgage Trust Sector

The Australian managed funds industry is the 4th largest in the world, behind the United States, Luxemburg and France. Established in the 1960's the Australian mortgage trust sector is a significant sector within the financial services industry which has evolved as a mainstream income investment. It is in this sector that LM has focused its expertise to deliver the LM First Mortgage Income Fund, a competitive income product designed to outperform cash¹.

Distribution

Distribution of this income product is through a national and international network of financial advisers, wholesale platforms, private banks, superannuation funds, corporate and institutional investment. Designed specifically for these markets, the Fund offers tailored investment options including retail, wholesale, institutional and currency hedged. Product Disclosure Statements for these options are available from your financial adviser or the Manager.

The LM First Mortgage Income Fund

LM's management expertise, teamed with a well defined investment strategy of selecting only Australian registered first mortgage securities, cash and at call securities has allowed the Fund to deliver uninterrupted interest distributions and maintain the unit price of \$1.00 since inception in 1999².

With a niche product LM receives investments through adviser recommendations in 22 countries. It is pleasing to incorporate multiple currency investment options in this new PDS.

Compliance within the Regulated Financial Services Industry

LM is registered as an Australian Financial Services Licensee and a Responsible Entity under the Corporations Act 2001 and is therefore regulated by the Australian Securities and Investment Commission.

Australia enjoys a global reputation for having one of the most efficiently regulated finance sectors in the world. It provides security and integrity, through a sound, flexible and strong system of financial regulation designed to prevent systemic failure, and avoid unnecessary burdens on business.

Since inception the returns paid to investors have outperformed cash rates. Past performance is not an indicator of future performance. Performance of the Fund is not guaranteed and the risks associated with an investment in the Fund are different to cash.

² Past performance is not an indicator of future performance.

inception. Past performance is not an indicator of future performance. Performance of the Fund is not guaranteed and the risks

This summary provides an overview of the key leaunes of the Fund. The entire PDS should be read before investing in the Fund,

Investment Objective	 To offer appropriate risk/fetum premium over cash rates on a range of different cun To offer competitive interest distributions, and To allow investors a choice of investment currency and investment term. 	rates on a range of different currencies?: and investment term,	POTENNIA PRA PARTICIANA MARKA ENTRE PROPERTY CONTRACTOR AND AN ARTICLATURA CONTRACTOR AND ARTICLATURA
Assets of the LM First Nortgage Insome Fund	·	The assets of the LM First Mortgage income Fund ("Fund"), a registered managed investment scheme, are a Manager diversities the underlying mortgage portfolio by selecting mortgages spread across different sectors.	diversified 'pool" of Australian registered first mortgages, cash and "at call" securities. As part of the asset allocation strategy, the geographic locations, terms and loan sizes.
Investment Chaice	Australian Dol	Australian Dollar Investments	Man A A Labert Control of the Contro
	· · · · · · · · · · · · · · · · · · ·	There is a choice of Australian Dollar investment options available in the Fund, which are the Flavi Account, Fixed Term threstment Chilons and the LM Savings Plan. A summary of the features of these Australian Dollar investment options are set out below. An investment in Australian Dollars is not hedged.	Non-Australian dollar investments in the Fund are hedged in the relevant currency against Australian dollar currency movements. The Fund currency hedges a nen-Australian dollar investment line use of Forward Foreign Exchange Contracts (FFECT). The FFECs are facilisted by a global investment bank. Investments may be arranged for most currencias including. 4. USD, 7. GBP, 9. EUR, 8. CAD, 9. HKD, 8. SGD, 7. JPY, 9. NZD, 9. CHF, 9. THB, and 9. SEK. For derification on hedging as specific currency please contract the Manager.
		The LM Savings Plan Option	Currency Hedged Fixed Term tryestment Ontions
	Investors can choose the form of their investment by selecting one or more of the investment options below. - Flexid Account, or - Flexid Term investment of. - 4 years 3 years 2 years 13 months 12 months 12 months 10 months 12 months 1 months 10 months	A savings plan can be started with a minimum investment of \$100 and requires orgoing regular mortifily investments of \$100 or more. The minimum investment term for the LM Savings Plan is 12 months. No withdrawals are allowed during the initial 12 month term.	Non-Australian Dollar investors can choose the fenn of their investment by selecting one or more of the investment terms below: 12 Months - 6 Months - 3 Months - 1 Month Investors investment form commences on the date the Manager settles the FFEC.
	Investors may request different terms by applying to the Manager. An Australian Dollar knestment commerces on receipt of the cleared investment amount and completed Application Form and relevant supporting documentation.		
Interest Distribution Rates	Interest distribution rates are variable. Refer to the plot particular investment options from their adviser or the	Interest distribution rates are variable. Refer to the paragraph headed Interest Distribution Rates' on page 5 of particular investment options from their adviser or by telephoning the Manager on +617 5544 4500 or from	of this PDS for further details. Investors can obtain details of the most recent interest disribution rates paid by the Fund in respect the Manager's website at www.L.Maustralia.com*.
Payment of Interest Distributions	Retrivested monthly into the investor's investment account. Investors may choose to have the interest distribution poid monthly or quarterly direct to the account reminated on the Application Form.	Retrivested monthly to the investor's investment account.	Reinvested at maturity of the chosen investment term into the investor's investment account. Investors may choose to have the interest distribution paid at maturity direct to the account nominated on the Application Form.
Withdrawal Notice	* Flori Account - Withen notice is required to withdraw: * Fixed Term investments - At least 5 business days prior to maturity of the fixed term investors must notify the Manager in writing whether they wish to withdraw. His withdraw in the submatically rolled over for a further term of the same length. Refer to page 17 of this PDS (*How to Withcraw.)	No withdrawals are allowed during the first 12 month period. After the initial 12 month period investors can make up to 4 withdrawals annually by giving written rotice to the Manager, Refer to page 17 of this PDS ('How to Withdraw?).	At least 5 business days prior to maturity of the investment term investors roust notify the Manager in writing whether they wish to withdraw. If no withdraws in secelyed or no collovermaturity instructions provided an invastrant and interest distribution is automatically reinvested in the original nominated currency for further 4 month investment lerms until the investor notifies the Manager of a longer reinvestment term or a withdrawal notice is received. Refer to page 17 of this PDS (*Now to Withdraw).
Minimum Investment	\$1,000 ⁵	Initial evestment \$100 and menimum total monthly investment \$100.	\$1,000°
Minimum Withdrawal	\$1,000*	\$100	\$1,000
Minimum Balance	\$1,000	\$1003	\$1000.8
Unit Pricing	The price of units in the Fund is currently \$1.00 and	The price of units in the Fund is currently \$1.00 and has been so since the commencement of the Fund in	October 1999 (Refer to page 13 of this PDS r Unit Pricing?) for further details.),
Australian Taxation	If an investor is not an Australian resident for taxation purposes, Australian laxation rates will not apply, withhobling tax in their country of residence. Specific taxation advice should be obtained, Investors with information.	If on knyestor is not an Australian resident for taxation purposes, Australian baxation rates will not apply. However, withholding tax in their country of residence. Specific taxation advice should be obtained, Investors with domicited information.	withholding tax is deducted from interest distributions at a rate of 10%. Mon-resident investors may be entitled to claim a credit for tax exempt status with not be subject to any Australian taxation, including withholding tax. Refer to page 25 of this PDS ("Tax") for further
Risk	All investments are subject to risks. Details of risks as	All investments are subject to risks. Details of risks associated with an investment in the Fund are outlined on	page 26 of this PDS (Threstment Risks").
Fees	There are no entry or exit fees payable. The Manager n	There are no entry or exit fees payable. The Manager receives a Management Fee which is currently calculated	as a percentiage of net assets of the Fund. For full details please near to a remain 21 of this choice when and One-of-of-of-of-of-of-of-of-of-of-of-of-of-

This investment objective is derived from the return of the underlying investments of the Fund, which has outperformed cash rates since associated with an investment in the Fund are different to cash.
 Past performance is not an indicator of outure performance.
 Or stick lesser amount as determined by the Manager.

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The LM First Morigage Income Fund

Investment Objective

- To offer appropriate risk / return premium over cash rates on a range of different currencies⁶;
- To offer competitive interest distributions; and
- To allow investors a choice of investment currency and investment term.

The Manager achieves this by being selective with the investments of the LM First Mortgage Income Fund, which are a diversified "pool" of registered first mortgages, cash and "at call" securities.

Benefits of investing

- Choice of investment term;
- Choice of currencies with non-Australian dollar currencies hedged against movements in the Australian dollar;
- Australian registered first mortgage security;
- Appropriate risk premium relative to cash rates⁶;
- Funds management expertise managed by specialist mortgage trust manager;
- Nine year management track record of uninterrupted income distributions⁷.

The LM First Mortgage Income Fund Investments

The Fund currently invests in a diversified portfolio of Australian registered first mortgages over commercial, residential, industrial, retail and vacant land, interest bearing cash investments and "at call" securities.

The assets of the LM First Mortgage income Fund as at 29 February 2008 totalied \$718,403.075 and were made up as follows:



Australian Registered First Mortgage Securities 96% Cash & "At Call" Securities 4%

Interest Distribution Rates

Interest distribution rates are variable, and will depend on income earned and expenses paid by the Fund from time to time, commission payable to advisers, and on the type of investment chosen. Investors can obtain details of the most recent interest distribution rates paid by the Fund in respect of particular investment options from their adviser, by telephoning the Manager on +617 5584 4500 or from the Manager's website at www.LMaustralia.com.⁷

Investment Options in the LM First Mortgage Income Fund

Financial advisers have the advantage of tailoring a client's portfolio for optimal liquidity and maximum return by blending investment through one or more of the Fund's Flexi Account or Fixed Term investments.

The investment options offered by the Fund provide flexibility of choice for investors. Investors can choose investment currency and term of their investment by selecting one or more of the investment options below:-

Australian Dollar Investment Options

Flexi Account

The Flexi Account option generally allows investors 30 day access to their funds.⁸

Fixed Term Investment

The Fixed Terms offered by the Fund are as follows8:-

4 years 3 years 2 years 13 months 12 months 6 months 3 months 11 month

Investors may request different terms by applying to the Manager.

LM Savings Plan

The LM Savings Plan is a savings plan option that investors can start with a minimum investment of \$100 and ongoing regular monthly investments of \$100 or more for at least the first 12 months.

Non-Australian Dollar Currency Hedged Fixed Term Investment Options

Non-Australian dollar investments in the Fund are hedged in the respective currency against Australian dollar currency movements. The Fund currency hedges a non-Australian dollar investment through the use of Forward Foreign Exchange Contracts ("FFEC"). The FFEC's are facilitated by a global investment bank. Investments may be arranged for most currencies including:-

SUSD SGBP ŠEUR SCAD SHKD SGD JPY SNZD STHB SCHFand SEK

Non-Australian Dollar investors can choose the term of their investment by selecting one or more of the investment terms below:⁸

- ► 12 Months
- 6 Months
- ⊭ 3 Months
- → 1 Month

The investor's investment term commences on the date the Manager settles the FFEC.

For clarification on hedging a specific currency or enquiries for other investment terms please contact the Manager.

Further details regarding each of the Fund's investment options are set out on pages 6 - 9 of this PDS.

- ⁶ Since inception the returns paid to investors have outperformed cash rates. Past performance is not an indicator of future performance. Performance of the Fund is not guaranteed and the risks associated with an investment in the Fund are different to cash.
- Past performance is not an indicator of future performance.
- While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

06

LM First Mortgage Income Fund Australian Dollar Investment Options

LM Flexi Account and Fixed Term Options

Flexi Account

The Flexi Account option generally allows investors 30 day access to their funds.⁹

Fixed Term Investment

The Fixed Terms offered by the Fund are as follows:9

4 years 3 years 2 years 13 months 12 months 6 months 3 months 1 month

Investors may request different terms by applying to the Manager.

Interest Distribution Rates

Interest distributions are variable, and will depend on income earned and expenses paid by the Fund from time to time, commission payable to advisers, and on the type of investment chosen. The most recent interest distribution rates paid by the Fund in respect of the Fund's Flexi Account, Fixed Term Investment and LM Savings Plan options can be obtained from an investor's adviser, by telephoning the Manager on +617 5584 4500 or from the Manager's website at www.LMaustralia.com.¹⁰

Interest Distribution Payments for the Flexi Account and Fixed Term Options

Monthly interest distributions are automatically reinvested. However investors may choose to have their interest distribution:-

- paid by direct credit monthly or quarterly to the nominated financial institution account on the Application Form;
- paid to an investor's LM Cash Performance Fund investment account; or
- paid as a split interest distribution, which means that part of the interest distribution is paid to an investor's financial institution account and the balance reinvested. Further details are set out below.

If no instructions are given, interest distributions are automatically reinvested.

Interest distributions are calculated daily. Interest distributions are paid within 14 days after the end of the month. Quarterly interest distributions are paid within 10 business days of the quarterly anniversary of the investment date.

Interest distributions are paid by direct credit to the account nominated on the investor's Application Form.

Split Interest Distributions for the Flexi Account and Fixed Term Options

Investors can elect to have a fixed portion of their monthly interest distribution amount paid monthly or quarterly to their nominated financial institution account with the balance interest distribution amount reinvested to their investment account.

This optional feature allows investors to properly plan and budget their financial affairs and is particularly useful for investors who are relying on investments to provide regular payments to meet everyday expenses.

To use the "Split Interest Distributions" feature please complete the appropriate section of the Application Form attached to this PDS.

Additional Investments for the Flexi Account and Fixed Term Options

Investors can choose to make an additional investment or regular monthly, quarterly or semi-annual additional investments to their Flexi Account or Fixed Term investment account. See the heading "Adding to an Investment for Australian Dollar Investments Only" on page 16 of this PDS.

LM First Mortgage Income Fund Fixed Term Commencement

An investment term generally commences on the day that the investor's properly completed Application Form (and relevant supporting documentation) and investment money are received and processed by the Manager. For example, if a properly completed Application Form, supporting documentation, and investment money are received and processed for a 12 month term on 15 January, then the investment term commences on 15 January and ends on 15 January of the following year.

Flexi Account Withdrawal Notice

To withdraw all or part of a Flexi Account investors must give the Manager written notice. Payment of the withdrawal will generally occur within 30 days from receipt of the written notice. Whilst the withdrawal is processed the investment continues to earn interest. The withdrawal is paid by direct credit to the investor's account nominated on the Application Form.

Fixed Term Investment Withdrawal Notice

To withdraw all or part of a Fixed Term investment, investors must notify the Manager in writing at least 5 business days prior to the maturity date of the Fixed Term investment. Payment of the withdrawal will generally be made within 30 days after the maturity date. Whilst the withdrawal is processed the investment continues to earn interest. The withdrawal is paid by direct credit to the investor's account nominated on the Application Form.

If no withdrawal notice or written notice to change the term, is received at least 5 business days prior to the maturity date the investment will automatically roll over for a further investment term of the same length.

While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

¹⁰ Past performance is not an indicator of future performance.

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LM First Mortgage Income Fund Australian Dollar Investment Options

LM Savings Plan Option

LM Savings Plan investors can start their savings plan with a minimum investment of \$100 and ongoing regular monthly investments of \$100 or more for at least the first 12 months.

Investors can choose to have their ongoing investments paid by direct debit on a weekly, fortnightly or monthly basis. The direct debit will be paid from the account nominated on the Application Form.

The minimum investment term for the LM Savings Plan is 12 months. To ensure that savings are maximised no withdrawals are allowed during the initial 12 month term.

After the initial 12 month period investors can make up to 4 withdrawals annually.

Interest Distribution Payments for the LM Savings Plan

Interest distributions are calculated daily and reinvested monthly to an investor's LM Savings Plan investment account.

LM Savings Plan Additional Investments

Investors can choose to make additional investments to their savings plan at any time. The minimum additional investment amount is \$100.

LM Savings Plan Withdrawal Notice

Following the initial 12 month investment period investors can make up to 4 withdrawals annually by giving written notice to the Manager. Payment of the withdrawal will generally occur within 30 days from receipt of the written notice. ¹¹ The withdrawal is by direct credit to the account nominated on the Application Form.

LM Savings Plan Commencement

An investment term generally commences on the day that the investor's properly completed Application Form (and relevant supporting documentation) and investment money are received and processed by the Manager. For example, if a properly completed Application Form, supporting documentation, and investment money are received and processed for a 12 month term on 15 January, then the investment term commences on 15 January and ends on 15 January of the following year.

Performance

The historical returns of the Fund to 29 February 2008 are set out below. Performance figures are calculated net of fees and assume all interest distributions are reinvested. The performance figures assume a fee of 1.1% pa (including GST) of net assets is paid to advisers. No performance figures are provided for the 1 Month Fixed Term option as it commenced at the date of this PDS, nor for the 13 Month Fixed Term option as it commenced on 20 March 2008. Investors can obtain updated details of the most recent interest distribution rates paid by the Fund in respect of particular investment options from their adviser, by telephoning the Manager on +617 5584 4500 or from the Manager's website at www.LMaustralia.com. ¹²

Investment	6 mths	1 yr*	3 yrs*	5 yrs*	7 yrs*	8 yrs*
4 Years	3.83%	7.78%	N/A	N/A	N/A	N/A
3 Years	3.83%	7.78%	N/A	N/A	N/A	N/A
2 Years	3.83%	7.78%	7.75%	N/A	N/A	N/A
12 Month Term	3.70%	7.52%	7.50%	7.60%	7.92%	7.89%
6 Month Term	2.96%	6.00%	6.00%	6.05%	6.32%	6.49%
3 Month Term	2.47%	5.00%	5.00%	5.02%	5.30%	5.46%
LM Flexi Account	3.29%	N/A	N/A	N/A	N/A	N/A
LM Savings Plan	3.27%	6.52%	6.50%	N/A	N/A	N/A

*Effective annual interest distributions to 29 February 2008. Interest distribution rates may vary. Past performance is not an indicator of future performance.

¹¹ While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

¹²Past performance is not an indicator of future performance.

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Livi First Mortgage Income Fund Indra-Australian Dollar Currency Hedged Fixed Jerm Investment Options

Non-Australian Dollar Currency Hedged Fixed Term Investment Options

Non-Australian dollar investments in the Fund are hedged in the respective currency against Australian dollar currency movements. The Fund currency hedges a non-Australian dollar investment through the use of Forward Foreign Exchange Contracts ("FFEC"). The FFEC's are facilitated by a global investment bank. Investments may be arranged for most currencies including:-

HUSD - GBP - EUR - HCAD - HKD - SGD - JPY - NZD -> THB - HCHFand - SEK

Non-Australian Dollar investors can choose the term of their investment by selecting one or more of the investment terms below:¹³

- 12 Months
- ← 6 Months
- ► 3 Months
- 1 Month

The investor's investment terms commences on the date the Manager settles the FFEC.

Extended Investment Terms

Investors may apply to the Manager to invest in the Fund for an extended investment period for multiple 12 month investment terms e.g. if an investor wants to invest for a 2 year investment term the 2 year investment term will be conducted as 2 rolling 12 month investment terms. In this case the second investment term is dealt with in the same manner as an initial investment. If the Manager allows the extended investment term, the terms and conditions of the extended investment term will be the same as the Fund's investment terms outlined in the PDS in force at the time the extended term commences. Investors will need to contact their adviser or access our website at www.LMaustralia.com or telephone us on +617 5584 4500 prior to the reinvestment term to obtain details of the most recent interest distribution rates and a copy of the PDS that will apply for the purpose of the reinvestment. ¹⁴

Non-Australian Dollar Currency Hedged Interest Rates

Interest distribution rates are variable, and will depend on income earned and expenses paid by the Fund from time to time, commission payable to advisers, and on the type of investment chosen. Investors can obtain details of the most recent interest distribution rates paid by the Fund in respect of particular currency investment options from their adviser, by telephoning the Manager on +617 5584 4500 or from the Manager's website at www.LMaustralia.com.¹⁴

Currency Hedge

The Fund hedges a non-Australian dollar investment through the use of FFECs. Each FFEC requires agreement between the user (the Fund) and the provider (financial institution) on the following:-

- currencies to be exchanged;
- the value of each of the currencies to be exchanged;
- the maturity date of the contract; and
- the rate at which the exchange between currencies will occur.

The forward rate is determined by the spot rate (current market rate) and the interest rates of the relevant currencies and will change as these variables alter.

On acceptance of investment funds and the completed Application Form, the relevant currency is converted at the prevailing spot market rate into Australian dollars and units in the Fund issued. The Fund simultaneously enters into a FFEC. The FFEC requires the Fund to deliver an amount of Australian dollars in exchange for an amount of the relevant foreign currency at a specific time in the future (the specific time is equivalent to the investment term) at a predetermined exchange rate (forward rate). At the end of the investment period the Fund converts the earnings of the investor into the relevant foreign currency at the forward foreign exchange rate.

Both the spot and forward transactions are facilitated by a global investment bank,

This process allows the Fund to offer investors the opportunity to invest in the LM First Mortgage Income Fund and hedge their investment against currency movements.

Currency Hedged Initial Investment

On receipt of the investment amount and the completed Application Form (including relevant supporting documentation) the Manager will confirm receipt with the investor's adviser.

The non-AUD investment amount is held in the subscription account until the Manager exchanges the foreign currency into Australian dollars and simultaneously hedges the relevant currency using FFECs.

Non-AUD investment terms for all currencies commence on the day the Manager settles the FFEC. For example, if the properly completed Application Form and supporting documentation for a 12 month term investment and investment monies are received by the Manager on 20 March and the FFEC settles on 22 March the commencement date will be 22 March and the maturity date will be 12 months later. The investment commences to earn interest from 22 March.

FFECs are settled on a daily basis with the global investment bank.

Investors will be notified by the Manager of the commencement date of their investment in writing.

¹³ While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

¹⁴ Past performance is not an indicator of future performance.

L'M First Mortgage income Fund Non-Australian Dollar Currency Heaged Fixed Term Investment Option

Interest Distribution Payments for Non-Australian Investments

Interest distributions are calculated for the term of the investment and are reinvested at the end of the investment term unless the investor elects to have the interest distribution paid direct to the investor account nominated on the Application Form. The interest distribution is paid within 5 business days of maturity of the original and any subsequent investment term.

Investors should note that if they elect to have the interest distribution paid to the investor account nominated on the Application Form, financial institutions charge a remittance fee which will be deducted from their interest distribution.

Automatic Reinvestment Default Position

If the investor has not ticked one of the boxes in Section 12 of the Application Form to either redeem or to rollover the investment for subsequent investment terms, the following default process will apply. At the end of the relevant investment term, the investor's original investment amount and interest distribution (unless the investor elects to have the interest distribution paid direct to the account nominated on the Application Form), are automatically reinvested and rehedged in the originally nominated currency for further 1 month investment terms until the investor provides the Manager with longer investment term instructions or a written withdrawal notice.

Investors should complete the Maturity/Rollover Instructions in Section 12 of the Application Form to ensure that correct rollover/ withdrawal instructions are provided to the Manager.

Investors should consult with their adviser to obtain details of the current PDS and most recent interest distribution rates prior to reinvestment. ¹⁵ The current PDS and most recent interest distribution rates are also available from the office of the Manager by telephoning +617 5585 4500 or by visiting the Manager's website at www.LMaustralia.com. ¹⁵

Changing Rollover Investment Terms

Investors can change the term of their investment by giving the Manager written notice at least 5 business days prior to the existing maturity date.

Investors should consult with their adviser to obtain details of the current PDS and most recent interest distribution rates prior to reinvestment. ¹⁵ The current PDS and most recent interest distribution rates are also available from the office of the Manager by telephoning +617 5585 4500 or by visiting the Manager's website at www.LMaustralia.com. ¹⁶

Notice of Withdrawal

To withdraw all or part of a currency hedged fixed term investment, investors must notify the Manager in writing at least 5 business days prior to the maturity date of the current investment term. Payment of the withdrawal will generally be made within 5 business days after the maturity date. ¹⁶ The withdrawal is by direct credit to the account nominated on the Application Form.

Please refer to the paragraph on this page headed "Automatic Reinvestment Default Position" for further details of the consequences of not providing the notice in writing at least 5 business days prior to the relevant maturity date.

¹⁵ Past performance is not an indicator of future performance.

While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").



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LM First Mortgage income Fund investments

Assets of the LM First Mortgage Income Fund

The assets of the Fund are a diversified portfolio of Australian registered first mortgages over commercial, residential, industrial, retail, vacant land, interest bearing cash investments and "at call" securities,

The assets of the Fund as at 29 February 2008 totalled \$718,403,075 and were made up as follows:



Australian Registered First Mortgage Securities 96% Cash & "At Call" Securities 4%

Investment Strategy and Structure

The Manager's investment strategy is to provide competitive investment returns from Australian registered first mortgage securities, cash and "at calf" securities. Risk management is a priority and the Manager follows a disciplined research driven approach to investment.

The Manager's Property Research and Analysis Committee ("PRAC"), specifically targets locations offering property growth opportunities and property sectors which are expected to perform. The Manager utilises the information provided by PRAC to review and assess its asset allocation strategy for the mortgage securities. As part of its asset allocation strategy the Manager diversifies the mortgage portfolio at a number of levels including, sector, geographic location, term and loan size.

All decision making in relation to the assets of the Fund is handled through a collaborative discussion forum of committee structures, rather than resting with one person. Both the broad base of expertise involved in committee discussions together with the objectivity offered by voting members of the committees is designed for the ultimate protection of investor funds. The Credit Committee is integral to the compliance and risk management processes utilised by the Manager with respect to the selection of registered first mortgage assets for the Fund. The Credit Committee calls for collaboration of a broad base of expertise from the property, finance, legal and accounting sectors when evaluating mortgage assets for the Fund. The formal structure and collaborative decision making process provided by the Credit Committee ensures an informed assessment and objective decision is made when selecting the first mortgage assets of the Fund. For more information in relation to the Credit Committee and the Manager's lending policies and procedures refer to the section headed "Lending Policies and Procedures of the LM First Mortgage Income Fund" on this page of the PDS.

To enhance investment returns from cash investments the Manager may, from time to time, invest a proportion of Fund's cash assets with other fund managers who specialise in income bearing cash investments, long and short term securities (including equity securities and derivatives on securities) or mortgage securities. Specialist fund managers are chosen following an extensive and rigorous research process that examines their investment style, expertise of their investment team and a range of other factors. The Manager reviews each specialist fund manager's performance on an ongoing basis, ensuring that they operate within the mandated expectations and guidelines. As at the date of this PDS, the Manager has a policy limiting the proportion of Fund assets invested with other specialist fund managers to 10%.

The Manager monitors and balances the Fund's portfolio of assets between cash, "at call" securities and Australian registered first mortgage securities, to ensure:-

- the delivery of consistent performance for investors;
- sufficient liquidity is available for investors redeeming their investment in the Fund 17. The Manager has a liquidity policy that is monitored by the Board to adequately manage payment of withdrawals within the time period specified; and
- liquidity is available to service the requirements of both existing and new mortgage securities.

Since its inception in 1999, the Fund has settled approximately \$3.5 billion of first mortgages. To ensure a continued supply of loans for the portfolio, the Manager's Commercial Lending Department markets its property related expertise, experience and lending services throughout a network of Australian loan originators.

Lending Policies and Procedures of the LM First Mortgage Income Fund

The Manager is selective in its choice of mortgages and adheres to prudent lending parameters. The Fund follows strict lending policies and procedures as detailed below:

- Assessment of the borrower the Manager endeavours to meet every borrower to assess character and business acumen;
- All mortgages are subject to the Manager's rigorous due diligence process including approval by the Manager's Credit Committee;
- A first mortgage is always registered on property held as the primary security;
- The Manager has every security property valued by one of the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and adhering to the Manager's valuation guidelines;
- The Manager does not accept valuations performed on the instruction of borrowers. The Manager requires that valuations be provided on the Manager's instructions, or that valuers confirm that their valuations adhere to the Manager's requirements;
- The valuer must have appropriate professional indemnity insurance;
- The valuer must certify that they are independent of both the borrower and security property;
- An updated valuation will generally be required where a loan term is extended or a loan is otherwise varied. An updated valuation will also generally be required for commercial toans at 24 month intervals and for construction loans at 12 month intervals. The requirement for an updated valuation may be waived where the Manager considers that an updated valuation would serve no useful purpose (eg where it is demonstrable that property values have increased or not changed in the locality of the property, where a property under construction is significantly presold, where a commercial property has long term leases in place, where a sale or refinance is imminent or where the loan to valuation ratio of the property is low):
- The Manager has a policy of diversifying mortgage securities geographically and by property type;
- The Manager has a policy of generally not exceeding the

¹⁷ While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

following loan to valuation ratios:-

- 66.67% for construction and development loans; and
- 75% for commercial loans:
- The constitution of the Fund does not allow the Manager to exceed a loan to valuation ratio of 85% for any one loan except in the event of default. This could occur for example, where interest is being capitalised while the security property is being marketed and sold, or where the Manager determines that expenditure should be incurred to improve the security property prior to sale (the Manager considers a loan to be in default when interest payments have not been received in breach of the loan agreement, or the loan term has expired without repayment of principal);
- One of the tools the Manager employs to enhance income into the Fund is to balance the assets of the mortgage portfolio between commercial loans and selective development loans;
- A serviceability analysis is performed to evaluate the financial capacity of each applicant borrower including checking the credit history of each borrower through a credit bureau.

Further information in relation to investment policies and lending criteria is outlined on page 31 of this PDS ("Additional Information").

To the extent that they may affect the value or performance of an underlying investment the Manager may take into account labour standards, or environmental, social or ethical considerations when making, retaining or realising an investment in the Fund. The Manager has no predetermined view about how far such matters will be taken into account, and the Manager will make a determination on such issues on a case by case basis.

LM First Mortgage Income Fund Arrears Management

The Manager has documented arrears management processes which are implemented in the event that a mortgage loan goes into default. Arrears loans are managed by a team of experienced personnel. The documented processes include the following:

- Dishonoured payments or other defaults are referred to the Arrears Manager for actioning. The Arrears Manager immediately contacts the borrower to ascertain the circumstances of the default.
- If the default is short term, arrangements are made with the borrower to remedy the default;
- If the default is long term, a summary of the nature of the default is emailed to the Arrears Committee with recommendations;
- The Arrears Committee is comprised of the Executive Directors, the Portfolio Manager, the Risk Manager, the Arrears Manager and members of the Commercial Lending Department as appropriate;
- The Arrears Committee meets at least weekly. The Arrears Committee considers the recommendations for arrears loans and supervises the preparation of an arrears management plan for each arrears loan. Given the nature of loans within the loan portfolio, the Manager adopts a case by case approach to arrears management, reflected in the individual management plans for each arrears loan;
- Management plans are implemented by the Arrears
 Manager who maintains a separate arrears file for each

arrears loan;

- Reports on arrears loans are prepared and presented at Arrears Committee meetings. Management plans are considered and updated as necessary;
- In the formulation of a management plan the Arrears Committee considers the following factors:
 - Current value of the security property;
 - Whether an updated valuation ought to be obtained;
 - Current loan amount;
 - Current loan to valuation ratio;
 - Areview of securities held:
 - A review of insurances held;
 - Issue of default notices;
 - For commercial loans:
 - tenancy status:
 - For construction loans:
 - status of construction;
 - cost to complete;
 - sales achieved;
 - review of presales;
 - Current marketing and/or sales programs;
 - Credit assessment of the borrower and any guarantors;
- Whether demands ought to be issued to any guarantors;
- Any proposal by the borrower to remedy the default;
- Status of any second or subsequent mortgages and status of priority arrangements;
- Desirability of taking possession or appointing a receiver or agent for the mortgagee;
- Compliance with statutory requirements (eg lodgement of notices, maintenance of controller accounts);
- Any site-specific issues (eg planning, subdivision, contamination or heritage status);
- Potential sales avenues;
- Whether sales agent ought to be appointed/selection of agent;
- For all arrears loans, a detailed recoverability analysis is prepared and updated on a weekly basis as part of the arrears management plan;
- External consultants (valuers, lawyers, insolvency practitioners, sales consultants etc) are engaged where appropriate throughout the arrears management process;
- The Manager may from time to time foreclose on a security property as part of a realisation strategy. Foreclosure is a remedy available to a registered mortgagee by which the mortgagee becomes the absolute legal owner of the property free of any interest of the mortgagor. In the event of foreclosure, the Manager may hold, improve and/or sell the security property in order to achieve the best result for the Fund. The Manager may sell a property on which it has foreclosed to a related entity, in which case the sale price will be determined by valuation.

Arrears loans are managed in this way until the security is sold and/or all possible recovery action has been completed.

Assets of the LM First Mortgage Income Fund

The assets of the Fund as at 29 February 2008 totalled \$718,403,075 and were made up as follows:



Australian First Registered Mortgage Securities 96% Cash & "At Call" Securities 4%

As at 29 February 2008 the mortgage allocation was as follows: Security Property Type Allocation



- Commercial 34%
 Residential 36%
 Industrial 8%
- Pre-Development Land 16% Retail 6%

Geographic Distribution of Security Property



- New South Wales 35%
 Australian Capital Territory 3%
 Victoria 9%
 Queensland 34%
- Queensland 34%

 Western Australia 7%

 Northern Territory 11%
- Tasmania 1%

Construction and Development Mortgage Securities



- Construction & Development Mortgage Securities 33%
 - Non-Construction Mortgage Securities 67%*

*Non-Construction Mortgage Securities includes pre-development land, completed developments and income generating commercial loans.

Mortgage portfolio details as at 29 February 2008

Total amount of mortgage securities	\$687,494,654
Number of mortgages	74
% of mortgages with fixed interest rates	100%
Average loan to valuation ratio	63,89%
Smallest loan	\$94,672
Largest loan	\$85.523,929
Average Ioan size	\$9,290,468
Undrawn Ioan commitments over next 24 months	\$362.375,790
Average monthly undrawn loan commitments	\$15,098,991

The Manager maintains a detailed cash flow model which assesses the total Fund inflows and outflows including programmed loan repayments from borrowers and progressive loan draws. This model allows the Fund's Portfolio Manager to accurately assess Fund cash requirements to ensure sufficient liquidity for the Fund to meet its commitments at all times. ¹⁶

As at 29 February 2008 there were 52 borrowers. Two borrowers had a mortgage that exceeded 5% of the mortgage portfolio. The Manager generally ensures that no single mortgage exceeds 10% of the Fund's assets.

One borrower may have an interest in several loan facilities by way of different entities. The Manager assesses the total

exposure to one borrower as including those related entities with different loan facilities.

Mortgage securities by maturity profile as at 29 February 2008

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Period maturing	% of Total	Value \$
0-6 months	38.42%	\$264,114,682
6-12 months	32.65%	\$224,434,036
12-18 months	17.19%	\$118,182.830
18-24 months	5.70%	\$39,203,830
24-36 months	3.37%	\$23,164,303
36-48 months	0%	\$0
48-60 months	2.67%	\$18,321,927

Mortgage securities by interest rate profile as at 29 February 2008 For the month ended 29 February 2008 the average interest rate of the mortgage portfolio was 9.69%.

interest rate %	% of Total	Value \$
= or < 7.00%	0.12%	\$816,519
7.01-7.50	1.57%	\$10,812,275
7.51-8.00	7.78%	\$53,467,988
8.01-8.50	11.13%	\$76,515,263
8.51-9.00	10.51%	\$72,213,890
9.01-9.50	15.67%	\$107,696,936
9.51-10.00	1.98%	\$13,630,474
10.01-10.50	5.45%	\$37,435,117
10.51-11.00	30.59%	\$210,310,344
11.01-11.50	9.66%	\$66,433,970
11.51-12.00	5.54%	\$38,088,833

Status of Mortgage Loans

The Manager considers a loan to be in default when interest payments have not been received in breach of a loan agreement, or the loan term has expired without repayment of principal. Set out in the table below are details of Fund loans falling into the former category.

LM First Mortgage Income Fund Loans in Arrears

Period	Principal	Unpaid Interest	No. of loans
60-90 days	\$10.436,287	\$609,953	1
90 days and over	\$34,685,533	\$6,165,154	7
Total	\$45,121,820	\$6,775,107	8

As at 29 February 2008 the percentage of mortgage securities in arrears was 7.49%.

All of the loans except for one in arrears were past their maturity date. As at 29 February 2008 one other loan was past its maturity date and it represents 0.6% of the mortgage portfolio.

The Manager utilises its property expertise and its Arrears Management Policies and Procedures to secure realisation and exit strategies for all arrears loans.

As at the date of this PDS the directors do not consider the arrears above will result in a capital loss for the Fund.

¹⁶ While the Manager considers any delays unlikely, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals in order to protect all investments. Refer to page 17 of this PDS ("How to Withdraw").

Unit Pricing

The price of units in the Fund has remained at \$1.00 since the inception of the Fund in October 1999. As per the Fund's constitution, the unit price is calculated monthly and determined by dividing the value of the adjusted net assets of the Fund by the number of units on issue on the last day of each month. The unit price may vary and may increase or decrease depending on the performance of the assets of the Fund.

The Manager has a Unit Pricing Policy which provides that Fund assets will be valued at cost or fair value, depending on the type of asset. The Manager will revalue an investment asset if the Manager determines that a particular investment has increased or decreased in value. A copy of the Unit Pricing Policy with any assessment provisions exercised by the Manager is available free of charge upon request.

Updated Financial and Other Information

The current financial report for the Fund is available at www. LMAustralia.com or by telephoning freecall 1800 062 919 (Australia only) or +617 5584 4500. The Manager will notify investors of any material adverse information in relation to the Fund. Information relevant to the Fund that is not materially adverse and that is subject to change from time to time (including information in relation to Fund's fund size, asset allocation, mortgage securities allocation e.g. geographic and property type allocation, average loan to valuation ratio, performance and arrears, including information contained in this PDS) will be updated by the Manager on its website and a paper copy of any updated information will be given to any person without charge on request.

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If a properly completed Application Form, investment funds and investor/s verification documentation and information (as required) arrive before 12 noon Queensland time on a business day at the Gold Coast, Queensland, the application will generally be accepted that day; if they arrive after that time, then that application will be accepted on the next business day.

- Complete and sign the Application Form attached to this PDS.
- Remit funds directly to the Fund by one of the methods outlined on pages 14 and 15.
- Mail the Application Form plus the Direct Debit Request Form / Bpay Receipt / Electronic Direct Credit Receipt / copy of Telegraphic Transfer or Cheque, to the Manager at LM Investment Management Ltd, PO Box 485 Surfers Paradise Qld 4217.

How to Remit Funds for Australian Dollar Investments

There are a number of ways to remit funds for the Australian dollar investment options in the Fund. Australian Dollar investors can:-

complete the **Direct Debit** Request Form attached to this PDS (for investors with Australian bank accounts only),

or

make a cheque payable to the custodian (for Australian bank account holders only):- PTAL acf LM First Mortgage Income Fund;

or

remit funds directly by BPay (for Australian bank account holders only). In this instance an investor must fax the Application Form to the Manager then telephone the Manager on freecall 1800 062 919 (Australia only) or +617 5584 4500 to receive their account number. On receipt of an account number the investor can proceed to BPay by using:

Biller Code	Reference No
53363	Your Account No

The Bpay receipt must be attached to the Application Form when mailed to the Manager;

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remit funds directly by electronic direct credit or telegraphic transfer. In this instance once an investor has forwarded the electronic direct credit or telegraphic transfer to the Fund's bank account (details below) the investor must fax the completed Application Form and a copy of the electronic direct credit receipt or telegraphic transfer to the Manager and forward the original by mail;

LM First Mortgage Income Fund

Name of Account:	PTAL acf LM First Mortgage Income Fund		
Bank:	Suncorp Metway Ltd		
Swift Code:	METWAU4B		
Branch:	Wickham Terrace, Brisbane		
ESE:	484 799		
Account No:	045 450 110		

When remitting funds by electronic direct credit or telegraphic transfer please provide the electronic direct credit or telegraphic transfer reference code on the Application Form in Section 13 and attach a copy of the electronic direct credit receipt or telegraphic transfer to the Application Form. Investors making additional investments must complete the Additional Investment Form available from the Manager's website at www. LMaustralia.com. Investors should note that financial institutions may charge a remittance fee which will be deducted from their investment. We endeavour to ensure inter-financier transfer processes are effected promptly, but cannot be held accountable for any delays within the banking system;

or to make payment by credit card please complete the Credit Card Payment Form attached to this PDS and forward it with the Application Form to the Manager. The merchant fees charged by the credit card provider are deducted from the investment funds. The merchant service fee may vary from time to time, but as at the date of this PDS the merchant fees were 1.54% of the investment funds.

www.LMaustralia.com > 154 Eb 4115-42gggo he ome fluist

How to Remit Funds for Non-Australian Dollar Currency Hedged Investments

Remit funds directly by telegraphic transfer. Telegraphic transfers can be arranged with an investor's overseas financial institution by providing it with the following details of the bank account to be credited (which is in the name of the custodian). Please provide the telegraphic transfer reference code on the Application Form in Section 13 and attach a copy of the telegraphic transfer to the Application Form.

New Zealand investors should note the alternative payment options referred to below under the heading "New Zealand Investors".

For currencies other than those shown on this page please contact the Manager to obtain bank account details for telegraphic transfers.

Please ensure that funds are remitted in the currency to be invested.

Telegraphically transfer USD, GBP, EUR, CAD, JPY, SGD, HKD, CHF, THB, SEK, and other currencies (excluding NZD) to the account below:-

Name of Account:	PTAL acf LM First Mortgage Income Fund		
Bank;	Commonwealth Bank of Australia		
Address:	48 Martin Street, Sydney		
Swift Code:	CTBAAU2S		
Branch:	Sydney		
Account No.	100642778 (plus the currency code for the currency you are sending e.g. 100642778 USD)		

New Zealand Investors

Telegraphically transfer NZD to the account below:-

Name of Account:	PTAL acf LM First Mortgage Income Fund		
Bank:	ANZ		
Address:	203 Queen Street, Auckland, New Zealand		
Swift Code:	ANZBNZ22		
Branch:	Auckland		
Account No.	0102 0987918 00		

As well as making NZD investments by telegraphic transfer, investors living in New Zealand can:-

- Arrange for NZD investments to be direct debited from their bank account. Please complete the Direct Debit Form in this PDS; or
- make a deposit in person at an ANZ bank or electronically direct credit investment funds to the ANZ NZD account referred to above. When remitting funds by direct credit please supply a copy of the direct credit receipt and banking reference number provided by the remitting bank in Section 13 of the Application Form.

After receipt of funds, currency hedged non-Australian dollar applications are processed in the manner detailed in the paragraph headed "Currency Hedged Initial Investment" on page 8 of this PDS.

Investors should note that financial institutions may charge a remittance fee which will be deducted from their investment. The Manager endeavours to ensure inter financier transfer processes are effected promptly, but cannot be held accountable for any delays within the banking system.

Minimum Investment Amount:

Investment Option	Minimum Investment	Minimum Additional investment/Monthly Contribution
LM First Mortgage In	come Fund	
Flexi Account	\$1,000	Multiples of \$1,000
Fixed Terms	\$1,000	Multiples of \$1,000
LM Savings Plan	\$100	Minimum monthly contribution & additional investments \$100
Currency Hedged Non-Australian Dollar Fixed Terms	\$1,000	Multiples of \$1000

The Manager will, at its discretion, accept investments of amounts different to those set out above.

Monthly Contributions to an LM Savings Plan Account

investment in	When Debited	You can stop/restart
LM Savings Plan	Debited from the nominated account on the 24th of each month or next business day if the 24th falls on a weekend or public holiday unless a specific date is nominated on the Application Form.	After the minimum initial 12 month period an investor can stop and restart their LM Savings Plan at any time without incurring fees by simply contacting the Manager in writing.

If an investor has not made a monthly contribution in 12 months a new Direct Debit Request Form will have to be completed and forwarded to the Manager.

Adding to an Investment for Australian Dollar Investments Only

When adding to an investment, please remember to:

- complete the Additional Investment Form available from the Manager's website at www.LMaustralia.com;
- provide the account number if an investor is unsure of the account number please contact the Manager;
- state the full account name;
- stipulate the amount to be added payment can be made by the methods outlined under "How to Remit Funds" on pages 14 and 15 of this PDS. Any queries please contact the Manager on +617 5584 4500 or freecall 1800 062 919 (Australia only);
- include a daytime telephone number;
- mail the Additional Investment Form plus the Direct Debit Request Form / Electronic Direct Credit Receipt / copy of Telegraphic Transfer or Cheque, to the Manager at LM Investment Management Ltd, PO Box 485 Surfers Paradise Old 4217

Please note that additional investments can be made at any time to existing Australian dollar investments however additional investments can only be added to existing currency hedged non-Australian dollar investments on rollover of the current investment term.

If you add to an existing fixed term investment (instead of starting a new fixed term investment) the new application moneys will be added to, and from that date will be treated as part of, the existing investment. For example, if a 12 month term investor makes an original investment of \$100,000 on 12 March and then in 6 months time adds another \$50,000 to the existing investment, the entire \$150,000 investment will mature 12 months after the initial \$100,000 investment was made.

If you are adding to an existing investment you should first obtain a copy of the current PDS for the Fund, as the additional investment will be made on the terms of that PDS. Investors can obtain a current copy of the PDS at any time from their adviser, our website at www.LMaustralia.com or by calling us on freecall 1800 062 919 (Australia only).

Cooling Off Period

A 14 day cooling off period generally applies to investments in the Fund. The cooling off period does not apply to additional investments or reinvestments of distributions.

During the 14 day cooling off period investors have the right to change their mind and withdraw their investment. This 14 day period commences on the earlier of 5 days from the date of issue of units in the Fund to the investor, or the investor receiving confirmation that their investment has been accepted and processed.

Investors wishing to withdraw must contact the Manager in writing at LM Investment Management Limited, PO Box 485, Surfers Paradise, Queensland 4217, by fax +617 5592 4116, or by email to mail@LMaustralia.com. If the Manager receives a withdrawal request within the 14 day cooling off period, it will withdraw and refund the investment. The refund may be adjusted to reflect any changes in unit price (positively or negatively), any taxation incurred, and if the investment is a currency hedged fixed term investment, any fees incurred in relation to breaking the FFEC.

These cooling off rights do not apply to wholesale investors (as defined in the Corporations Act 2001) or if the Fund is not liquid for the purposes of Chapter 5C of the Corporations Act. Investors should contact their adviser or the Manager by telephoning +617 5584 4500 or by email to mail@LMaustralia.com if they have any questions about cooling off rights.

How to Withdraw

When requesting a withdrawal, investors please remember to:-

- provide the name of the Fund and the investment account number. If you are unsure of the account number please contact the Manager;
- state the full investment account name;
- stipulate the amount to be withdrawn and how it is to be paid;
- include a daytime telephone number, and
- sign the request
 - if it is a joint account both investors must sign the request;
 - if it is a company account either 2 directors, 1 director and company secretary, or sole director who is also the sole secretary must sign the request;
- You can send your signed withdrawal request by the following options:-
 - Faxing the signed withdrawal request to the Manager at +617 5592 4116 or
 - Scanning the signed withdrawal request and emailing it to the Manager at investmentservices@LMaustralia.com or
 - Mailing the original signed withdrawal request to the Manager at PO Box 485, Surfers Paradise, Qld 4217 Australia.

If an investor requires withdrawal proceeds to be paid to an account other than the account nominated on the Application Form, then we may require further documentary evidence.

Fax & Scanned Images - Terms and Conditions

You should understand that a person without your authority could send the Manager a fax or scanned image, and by pretending to be you, transfer or withdraw funds from your account for their own benefit or request any other changes to your account.

In using fax or scan facilities, you agree that the Manager is not responsible to you for any fraudulently completed communications and that the Manager will not compensate you for any losses.

You agree that should such a fraud take place you release and indemnify the Manager against any liabilities whatsoever arising from the Manager acting on any communication received by fax or scanned image in respect of your investment, to the extent permitted by law.

The Manager will not be liable for any loss or delay resulting from the non-receipt of any transmission. These terms and conditions are in addition to any other requirements that may form part of your giving instructions relating to the completion of a particular authority.

By sending the Manager a fax or scanned image you signify your acceptance of these conditions.

Withdrawal	Notice	Period
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	· · · · · · · · · · · · · · · · · · ·	
Investment Option	Withdrawal request received by the Manager	Withdrawal is paid by the Manager*
LM First Mor	tgage Income Fund	
Flexi Account Option	Prior to 12 noon on any Gold Coast business day	Generally within 30 days from receipt of notice and is credited to the investor's financial institution account nominated on the Application Form
Australian Dollar Fixed Term Investment	5 business days prior to expiration of the fixed term	Generally within 30 days after maturity date by direct credit to the investor's financial institution account nominated on the Application Form.
Currency Hedged Non- Australian Dollar Fixed Term Investment	5 business days prior to expiration of the fixed term	Generally within 5 business days after maturity date by direct credit to the investor's financial institution account nominated on the Application Form.
LM Savings Plan Option	Following the initial 12 month investment period investors can make up to 4 withdrawals annually by giving written notice to the Manager.	Generally within 30 days after the Manager receives written notice of the withdrawal by direct credit to the account nominated on the Application Form.

*LM First Mortgage Income Fund - Withdrawal Delays

The Manager is generally required by the constitution to satisfy withdrawal requests within 180 days. In certain circumstances, that period may be extended to 365 days or the Manager may be entitled to suspend withdrawals. This facility allows for protection of investment funds. The Manager has a liquidity policy that is monitored by the Board to adequately manage payment of withdrawals within the time specified. For all non-Australian dollar investments, the Manager will continue to hedge (on a 1 monthly basis) the currency exposure of these investments. The time periods for withdrawals referred to above are the periods within which the Manager expects to be able to satisfy withdrawal requests, based on the withdrawal requests previously made in respect of the Fund. However, past experience is not an indicator of future circumstances, and there could be delays in meeting withdrawal requests, or a suspension of withdrawals. Refer to the paragraph headed "Withdrawal from the Fund" on page 31 of this PDS.

The withdrawal notice period commences from the time the notice is received by the Manager. Where a request for withdrawal is received on any day that is not a business day on the Gold Coast, Queensland, the request is deemed to have been received by us on the next business day.

Minimum Withdrawal Amounts

Investment Option	Withdraw in multiples of	Minimum balance
- Flexi Account Option	\$1,000	\$1,000
- Fixed Term Options	\$1,000	\$1,000
- LM Savings Plan Option	\$100	\$100

If the investment amount remaining after a withdrawal is less than the minimum balance set out above, then the Manager may direct the withdrawal of the entire balance. The Manager has discretion to allow withdrawal amounts other than those set out above.

Breaking a LM First Mortgage Income Fund Fixed Term Investment or LM Savings Plan

Partial or full withdrawals are NOT permitted:-

- during a fixed term investment;
- during the initial 12 month term of an LM Savings Plan investment or more than 4 withdrawals are not permitted in any 12 month period thereafter.

The Manager has complete discretion to allow a partial or full withdrawal during a fixed term investment or LM Savings Plan and generally only allows early withdrawal in the event of death or in cases of medical or financial hardship. If the Manager allows an early withdrawal, the Fund will charge:-

- a fee equal to the last three months' interest distributions paid or payable on the amount being withdrawn; and
- where an adviser is paid an upfront commission the Fund will charge an additional fee equal to the upfront commission paid, calculated on a pro-rata basis for the length of time remaining to maturity.

The above fees will be deducted from the investment amount.

Currency hedged fixed term investors should note that the above fees do not necessarily reflect the only impact of an early withdrawal. Other impacts (including fees and charges that may be payable to the financial institution which provides the FFEC) can only be calculated at the time the request for early withdrawal is made, because there are a number of variable factors, including currency market rates and length of time to maturity. Investors will need to contact the Manager if they want to withdraw early, and the Manager can at that time provide details of the total withdrawal costs, fees and other possible financial impacts.

investors should note that the financial impacts on an investor who breaks a currency hedged fixed investment term with an early withdrawal are likely to result in the investor receiving less than the original amount invested.

Overseas Remittance

Investors should note that financial institutions may charge a remittance fee which will be deducted from their investment. We endeavour to ensure inter-financier transfer processes are effected promptly, but are not responsible for any delays within the banking system.

Adviser Access to investment information

Advisers can Monitor an Investor's Investment

Advisers are provided with online access to full investment details and reporting on their clients' investments. For example, to check maturity dates for investments advisers can access the Maturing Investment Reports for their clients by logging on to the LM Information Exchange which is accessed from the home page on our website at www.LMaustralia.com. For access to the LM Information Exchange the adviser can contact the Manager on freecall 1800 162 919 (Australia only) or +617 5584 4500.

Correspondence & Information from the Manager

To assist investors to keep track of their investment the Manager will send:-

On Receipt of Investment Funds and Application Form:

The Manager will email the adviser to confirm receipt of investment funds and Application Form.

On investment:

On initial investment a Contract Note will be forwarded as requested by the investor on the Application Form (refer to Section 8 of the Application Form – which provides for correspondence to investor/s by email or post, or for correspondence to only be sent to the adviser).

Interest Distributions:

No correspondence is sent by the Manager. Interest distributions are reinvested unless the investor elects to have the interest distributions paid to their financial institution account. Advisers can access Transaction Statements and Distribution Statements from the LM Information Exchange.

LM First Mortgage Income Fund Fixed Investment Terms Maturity Notice

The Manager provides advisers access to the Maturing Investments Report for their clients from the LM Information Exchange. A notice of maturity is emailed to advisers prior to the maturity date for fixed investment terms.

For Australian Dollar Fixed Term investments - on the maturity date the investment will automatically rollover for a further investment term of the same length unless the Manager receives written notice of withdrawal or of a change to the investment term at least 5 business days prior to the maturity date.

For Currency Hedged Non-Australian Dollar Fixed Term Investments — on the maturity date the investor's original investment amount and interest distribution (unless the investor has nominated for the interest distribution to be paid to their bank account) is automatically reinvested and rehedged in the originally nominated currency for the rollover term selected on the Application Form. If no rollover term is selected the investment will automatically rollover for further 1 month investment terms until the investor provides the Manager with longer investment term instructions or a written withdrawal notice.

Investors and their advisers will need to access the Manager's website or telephone us prior to the reinvestment term to access the most recent interest distribution rates and the current PDS that will apply for the purpose of the reinvestment. 19

Rollover Confirmation

Within 5 business days following rollover of the investment a Rollover Confirmation Notice/Contract Note will be forwarded to advisers.

Transaction Statement is available to investors:

- from their financial adviser via the LM Information Exchange; or
- by request to the Manager.
- Exit Statement with details of the investor's investment account will be sent to the investor within 6 months of withdrawal from the Fund.
- Annual Periodic Statement with details of the investor's investment account will be sent to the investor once a year by 31 December for the preceding financial year.
- Annual Taxation Summary will be sent to an investor or made available to their adviser on the LM Information Exchange by the end of September each year for the preceding financial year.
- Annual Financial Statements of the Fund will be available on the Manager's website at www.LMaustralia.com by the end of September each year for the preceding financial year. Investors can choose to receive the annual statements free of charge by mail or email by marking the appropriate box in Section 8 of the Application Form.

Changing Details

Investors can advise the Manager of their change of address, email or telephone number/s by telephoning the Manager on 1800 062 919 (Australia only) or +617 5584 4500 or emailing the Manager at mail@LMaustralia.com.

All other changes including bank account details must be made by written request signed by the investor/s and sent to the Manager by:-

- Faxing the signed request to +617 5592 4116; or
- Scanning the signed request and emailing it to the Manager at investmentservices@LMaustralia.com or
- Mailing the original signed request to the Manager at PO Box 485, Surfers Paradise, QLD, 4217 Australia...

Change of Details Forms can be obtained from the offices of the Manager or online at www.LMaustralia.com.

¹⁹ Past performance is not an indicator of future performance.

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www.L.Maustralia.com > 1.64 First Marigage farging Faint

Fees & Other Costs

Government regulations require all financial product issuers to include the standard consumer advisory warning set out below. The warning below is standardised across all product issuers and does not provide specific information on fees and charges for the LM First Mortgage Income Fund.

CONSUMER ADVISORY WARNING

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your Fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and managements costs where applicable. Ask the Fund or your financial adviser.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

Refer to the table on page 22 of this PDS for information on the specific fees and charges that apply to the LM First Mortgage Income Fund.

This table shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund's assets as a whole. Taxes are set out on page 25 of this PDS.

You should read all of the information about fees and costs, because it is important to understand their impact on your investment.

TYPE OF FEE OR COST	AMOUNT	HOW AND WHEN PAID
FEES WHEN YOUR MONEY MOVES IN OR OUT OF THE FUND).	The state of the s
Establishment Fee : The fee to open your investment.	Nil	Not applicable.
Contribution Fee: The fee on each amount contributed to your investment by you.	Nil	Not applicable.
Withdrawal Fee: The fee on each amount you take out of your investment.	Nil for the Flexi Account, or where you take out your investment at the end of its Fixed Term, or in accordance with the terms of the LM Savings Plan, after giving the required notice. The Fund may charge a fee for early withdrawal equal to the last 3 months' interest distributions paid or payable on the amount withdrawn plus any upfront adviser commission paid in relation to the amount withdrawn, on a pro rata basis for the length of time remaining to maturity of the investment. For Currency Hedged Non-Australian dollar fixed investment terms there will be other financial impacts on you which can only be calculated at the time of the request for early withdrawal (due to a number of variable factors including currency market rates and the length of time to maturity). Further details are referred to under the heading "Dollar Fee Example for Early Withdrawal Fee Charged by the Fund" on page 24 of this PDS.	LM First Mortgage Income Fund Fixed Terr investments and LM Savings Plan only - Fees for early withdrawal are deducted from the amount withdrawn at the time of withdrawal.
Termination Fee : The fee to close your investment.	Nil	Not applicable.
MANAGEMENT COSTS	restanting to	от выштаю для учество выполнения предоставления до выполнения выполнени
ees and costs for managing your nvestment. ²⁰	An amount estimated to be 3.5% pa of the net assets of the Fund (this comprises estimated Management Fees of 2.3% pa, estimated Fund expenses of 0.10% pa, and an estimated adviser fee of 1.1% pa). 2	That part of the Fund's Management Costs which comprises the Manager's Management Fee is accrued daily and is currently paid monthly by being deducted from the assets of the Fund. That part of the Fund's Management Costs which comprises expenses of the Fund (other than the Management Fee) will be payable from the income or capital of the Fund, either monthly or as the expenses are incurred. That part of the Fund's Management Costs which comprises the Management Fee may be able to be negotiated with the Manager by a wholesale client as a differential fee. Further information is detailed under the heading "Additional Explanation of Fees and Costs" on page 23 of this PDS.
ERVICE FEES		and a material of foundated sharping and did glass consistent to the special state of the spe
witching Fee: ne fee for changing investment tions.	Nil	Not applicable.

²⁰ All amounts include GST (if applicable) and take into account any input tax credits or reduced tax credits that may be available to the Fund.

The adviser fee may be negotiable, but that will depend on what arrangements you may have in place with your adviser. See the paragraph "adviser fees" under the heading "Additional Explanation of Fees and Costs" on page 23 of this PDS. Further information on the Management Costs is also detailed under that heading.

ADDITIONAL EXPLANATION OF FEES AND COSTS

Management Costs for the LM First Mortgage Income Fund

The Management Costs can only be estimated, as the actual costs are not yet known. However, the Management Costs for the Fund for the financial year ended 30 June 2007 were 1.55% pa of the net assets of the Fund, and based on current financial information the Manager considers 3.5% pa to be a reasonable estimate of the annual Management Costs. The Management Costs are made up of the following different fees and costs (and note that the following fees and costs are explanations of the components which make up the estimated 3.5% pa Management Costs, and are not additional fees or costs):-

- The *Management Fee* component of the Management Costs accrues daily and is paid monthly from the assets of the Fund. The constitution of the Fund allows the Manager to recover a Management Fee of up to 5.5% pa of the net assets of the Fund. At the date of this PDS, it is estimated that the Manager will only receive a Management Fee of 2.3% pa of the net assets of the Fund, and that the Manager will waive its entitlement to the higher fee. Note however the section "Changes to Fees and Costs" on this page of this PDS.
- The custodian fees for the Fund are currently the greater of 0.02% pa of the assets of the Fund and \$20,000 pa.
- Adviser fees are fees paid to your adviser for professional financial advice. They are negotiated between you and your adviser. These fees may be paid from the Fund as a lump sum and/or trail commission. If you choose not to use an adviser, your individual distribution rate will still be calculated as if a fee of 1.1% pa (including GST) of your investment amount was payable to an adviser. Any such amount not paid to an adviser will be used to meet Management Costs.
 - The individual distribution rates payable to investors will vary dependent on the adviser fees paid by the Fund. This adviser fee is an expense of the Fund. The Manager's reasonable expectation is that such fees would be up to 1.1% pa (including GST) of your investment amount, but they could be higher. You should discuss the payment of this fee directly with your adviser.
- The Manager is reimbursed for all expenses properly and reasonably incurred in managing the Fund. This includes any bank and government fees, charges and duties levied in connection with payments to and by the Fund. The estimate of Management Costs referred to above is based on current financial information, but the actual expenses will depend on the amount incurred during each particular year.

Bank and Government Fees and Charges

Some bank or government fees, charges and duties may be charged directly to you, rather than to the relevant Fund. For example, cheque dishonour fees, and processing or remittance fees charged by banks. These amounts have not been taken into account in the estimate of Management Costs referred to above, but are not expected to be significant amounts.

Merchant Service Fees for the LM First Mortgage Income Fund

If you invest by credit card a merchant service fee may be charged by the credit card provider. That fee will vary from time to time, but at the date of this PDS is 1.54% of the investment funds. This amount is deducted from your investment funds at the time of investment. This amount has not been taken into account in the estimate of Management Costs referred to above.

Tax (including Goods and Services Tax)

The fees quoted in this PDS are inclusive of GST where applicable. See the heading "Tax" on page 25 of this PDS for further details of tax that may be relevant to your investment.

Differential Fees for the LM First Mortgage Income Fund

The Manager may negotiate differential fees with certain wholesale clients or employees of the Manager or of a related body corporate of the Manager, or relatives of those employees. Such differential fees will depend on individual negotiation, compliance with legal requirements, and any applicable ASIC policy. Where the differential fee arrangements involve the Manager paying rebates, the rebates will be paid from the Manager's own funds and will not affect other investors.

Changes to Fees and Costs

As noted above, the constitution of the Fund allows the Manager to recover a Management Fee of up to 5.5% p.a. of the net assets of the Fund. The constitution also allows the Manager to waive all or part of its fee. The Manager's current intention is to waive its entitlement to part of its fee each month. The Manager will decide each month how much of the maximum 5.5% pa Management Fee it will be paid, but at the date of this PDS, it is estimated that the Manager will only be paid a Management Fee of 2.3% pa of the net assets of the Fund.

The Manager may decide to vary the amount of Management Fee it recovers, the amount of the other Management Costs, or the methods of payment of those amounts, in its absolute discretion, and without your consent (but subject to the limits in the constitution). The Manager will give investors notice of any such change which is material. In particular, the Manager will give 30 days written notice of any change to the Management Fees under this PDS. Any immaterial change can occur without notice.

Marketing Fees

The Manager may pay properly authorised advisers a marketing reimbursement from time to time out of its own funds.

LM First Mortgage Income Fund Fixed Term Investment and LM Savings Plan Early Withdrawal Fees Charged by the Fund

Partial or full withdrawals are NOT permitted during a fixed term investment, or during the initial 12 month term of an LM Savings Plan investment (and more than 4 withdrawals from an LM Savings Plan are not permitted in any 12 month period thereafter). The Manager has complete discretion to allow a partial or full withdrawal during a fixed term investment or LM Savings Plan and generally only allows early withdrawal in the event of death or in cases of medical or financial hardship. If the Manager allows:-

- an early withdrawal from a fixed term investment; or
- an LM Savings Plan investor to withdraw during the initial 12 month term or allows more than 4 withdrawals in any 12 month period thereafter;

the Fund may charge a fee equal to the last 3 months' interest distributions paid or payable on the amount being withdrawn, and where an adviser is paid an upfront commission the Fund will charge an additional fee equal to the upfront commission paid calculated on a pro-rata basis for the length of time remaining to maturity.

Dollar Fee Example for Early Withdrawal Fee Charged by the Fund*

Below is an example of the early withdrawal fees charged by the Fund if you are allowed to break an investment term. It assumes the investment term is 12 months, you withdraw \$50,000 6 months after the investment date, you make no other transactions during the year, the Fund paid total effective interest distributions of 8.00% pa, and the adviser is paid a 1.1% pa commission (including GST) upfront. This is not a forecast.

LM First Mortgage Income Fund Early Withdrawal Fee Example	Fee Calculation	Total Fee Paid to the Fund	How and When Paid
Assuming 12 month investment term and you withdraw \$50,000 prior to the maturity date and the adviser was paid an upfront commission of 1.1%	3 months interest distribution calculation — \$50,000 x (8.00%/12 x 3) Plus 1.1% pa for length of time remaining until maturity of the 12 month term calculation — \$50,000 x (1.1%/12 x 6)	\$1,000.00 Plus \$550.00	Total fees of \$1,550.00 deducted from your investment at the time of withdrawal.

For Currency Hedged Non-Australian Dollar Fixed Term Investments you should note that the example of withdrawal fees outlined above does not necessarily reflect the only impact of an early withdrawal. Other impacts (including fees and charges that may be payable to the financial institution which provides the FFEC) can only be calculated at the time the request for early withdrawal is made, because there are a number of variable factors including currency market rates and length of time to maturity. You should note that the financial impacts on an investor who breaks an investment term with an early withdrawal are likely to result in the investor receiving less than the original amount invested.

EXAMPLE OF LM FIRST MORTGAGE INCOME FUND ANNUAL FEES AND COSTS

This table gives an example of how the fees and costs of the Fund can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

Example of Annual Fees and Costs

Contribution Fee	Nil	Not applicable	
Plus: Management Costs	3.5% pa* (including GST)	For every \$50,000 you have in the Fur you will be charged \$1,750 each year.	
Equals: Cost of Fund		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you would be charged fees of \$1.750**	
		What it costs will depend on the investment term option you choose and the fees you negotiate with the Fund or with your financial adviser.	

^{*} This is an estimate only and not the actual Management Costs for your investment. Further information on the Management Costs is detailed under the heading "Additional Explanation of Fees and Costs" on page 23 of this PDS. This amount includes an estimated fee of 1.1% pa (including GST) of net assets payable to your adviser. (See the paragraph "adviser fees" under the heading "Additional Explanation of Fees and Costs" on page 23 of this PDS). The table above is just an example. In practice your investment balance and the value of the Fund will vary daily.

^{**}Additional fees may apply – if the Manager allows you to withdraw early you may also be charged early withdrawal fees as set out on page 24 of this PDS. Early withdrawal fees are deducted from your investment amount.



Summary

Taxation law is constantly under review and changing. The comments below are accurate for Australian resident tax payers at the date of this PDS. Tax law is complex and each investor's circumstances are different. The Manager recommends all investors seek professional independent taxation advice on their investment before investing in the Fund.

Taxable Interest Distributions

The Manager's policy is to distribute all net taxable income of the Fund to investors each financial year. Under the current income tax legislation, a trust operates as a flow through vehicle such that the income of the trust when distributed, retains its character as it 'flows through' the trust to the investor, and the Manager as trustee is not generally liable to pay tax with respect to the Fund.

This has the consequence for investors that they will be required to include their entitlement to the net income of the Fund in their income tax returns and this income should be included in the investors' taxation return when the investors' entitlement to that income arises. This entitlement arises irrespective of whether the investor receives the income during the year, after the end of the year, or if the income is reinvested as additional units in the Fund.

Disclosure of Tax File Number

The Manager recommends Australian resident investors disclose their Tax File Number on the Application Form. The Manager will be required to withhold tax at the highest marginal rate (plus Medicare Levy) from interest distributions payable to all investors who have not advised the Manager of their Tax File Number or exemption details. It is not, however, against the law for an investor to choose not to quote their Tax File Number or exemption details. The collection of Tax File Numbers is authorised, and the use of such information is regulated by the tax laws and the Privacy Act.

Capital Gains Tax

If the Fund disposes of an asset, any capital gain on the disposal must be included in the Fund's calculation of net capital gain. The net capital gain of the Fund will be distributed to investors as part of the investor's share of the Fund's taxable income for the year (in proportion to the investor's investment in the Fund).

Where the disposal of an asset results in a capital loss, the loss will be retained by the Fund and not distributed to investors. The capital loss will generally be available to the Fund to offset any future capital gains of the Fund.

If an asset of the Fund is disposed of after it has been owned by the Fund for more than 12 months, any capital gain derived by the Fund as a result of the disposal will potentially be reduced by 50% for the purposes of calculating the net capital gain of the Fund.

The Manager will send to each investor their annual taxation statement by the end of September each year. Investors should not complete their taxation returns until they receive this statement.

Non-Resident Investors

If an investor is not an Australian resident for taxation purposes, the investor must (when completing the Application Form) provide their overseas residential address. Withholding tax will then be deducted from distributions before they are paid to investors. The tax rate will depend on which country the investor resides in*. Non-resident investors may be entitled to claim a credit for withholding tax deducted in their country of residence. Investors should consult their taxation adviser for further specific advice.

*Withholding tax is generally deducted at a rate of 10% from interest distributions for most countries, however some exceptions do apply. Please refer to the relevant Australian Double Taxation Treaty for further information. Investors should consult their taxation adviser for further specific advice.

Entities such as charities that hold tax exempt status will not incur any Australian tax, including withholding tax.

Social Security

An investor's investment in the Fund will be classified as a financial investment by the Department of Veteran Affairs ("DVA") and Centrelink and therefore be included in the Income and Assets Tests by the DVA and Centrelink. Government policy in this area can often change and the Manager recommends investors consult with their financial adviser, the DVA or Centrelink for any further information on how their investment in the Fund may affect them.

Goods and Services Tax

Goods and services tax ("GST") is not directly applicable to an investor's investment in the Fund when they invest or redeem their investment. The Fund may incur GST in respect to various expenses and the Fund may not be entitled to input tax credits with respect to all the GST the Fund incurs.

Investment Risks

Risk Management

All investments are subject to varying risks and the Manager actively manages the Fund with a view to balancing returns with security. This is achieved by:

- employing experienced, professional personnel;
- maintaining a long term vision for the Funds;
- complying rigidly with its compliance program;
- actively monitoring and managing the assets of the Funds;
- continuing to set high performance benchmarks.

For any investor the key to managing their investment is to understand and be comfortable with:-

- the investment term;
- the level of risk; and
- potential volatility,

that accompanies an investment in the Fund. The Manager actively manages risk under its risk management program. These comments are intended as a guide only and we recommend that investors seek professional financial advice.

	processing manipulation and vice.
Capital Risk	The value of the investment might decline. Investments are not capital guaranteed. Should the Fund not achiev appropriate rates of return or suffer a capital loss then there is the possibility that the investor could suffer a loss. No losses of capital have occurred in the Fund since its inception in 1999, or are expected to occur as at the date of this PDS. Past performance is not an indicator of future performance.
Unit Price	The unit price is variable and may increase or decrease depending upon the performance of the investment portfolio of the Fund.
Managing by Woodness Amplifys J. or proceed a process of the State of Contract of Contrac	The Manager is constantly assessing various investment sectors in order to determine which sectors have the bes potential in terms of income and/or capital security depending on the investment objective of the Fund.
Interest Distribution Rate Risk	This risk relates to the volatility of returns to investors. The Manager stabilises interest distribution rate risk as follows:
	The Manager stabilises interest distributions risk as follows:-
	cash assets of the Fund are proactively monitored to ensure that investments at least move in line with marke movements – investors should note that returns may not keep pace with inflation; and
	mortgage securities in the Fund utilise a combination of fixed interest rate lending and short lending terms and the Manager utilises a policy of annual interest rate reviews on the anniversary of each of the mortgage securities.
Currency Risk	Non-Australian dollar investments in the Fund are hedged in the relevant currency against Australian dollar currency movements. The Fund currency hedges a non-Australian dollar investment through the use of Forward Foreign Exchange Contracts ("FFEC"). Investors should however, be aware that any delay or shortfall in income or capital payments from the Fund may result in a loss for the Fund due to breaking a FFEC. In such an event, the investment will not be currency hedged and income and/or capital may be impacted.
Property Market Risk	Property market risk is the risk that negative movements in the property market may impact on the capacity to fully recover the amount owing on a mortgage.
	The Manager manages this risk by strictly complying with its lending guidelines, loan to valuation ratio policies, compliance program and the efficiency of its collections systems. The average loan to valuation ratio as at 29 February 2008 was 63:89%. It is the Manager's policy not to exceed a loan to valuation ratio of 85% for any one loan. However in the event of a default the loan to valuation ratio of 85% may be exceeded. Mortgage securities are reviewed on an ongoing basis with updated valuations obtained in accordance with the Manager's valuations policies.
Development or Construction Risk	In development or construction mortgages held by the Fund there could be delays in payment of interest or repayment of capital due to the timing, completion and sale of the development.
	The Manager's personnel have considerable experience in dealing with construction and development loans. For each loan an "as is" and an "on completion" valuation is obtained. Funding of the loan is controlled by the Manager on a "cost to complete basis". The Manager has specific procedures in place that are adhered to both prior to and during a project to ensure that the security is maintained and risks minimised.
	investors should also refer to the paragraph headed "Interest Capitalisation Risk" below as construction and development loans may have capitalised interest.
terest Capitalisation isk	Loans made from the Fund may require the interest to be paid periodically during the term of the loan or in the case of a construction and development loan a provision for interest may be built into the facility within the approved loan to valuation ratio. (Loan to valuation ratio is generally 66.67% for construction and development

loans). As a risk management measure, this provision for interest is built into the loan facility along with a contingency. This enables the Manager to control the interest payments and ensure that they are met within the approved loan to valuation ratio limit. In addition to this, a detailed financial analysis is conducted on each borrower to ensure that the borrower has sufficient resources to cover interest commitments if required.

There is a risk that interest payments may not be recoverable because of:-

- changed circumstances of the borrower;
- changed circumstances of the security property; or
- other economic conditions.

Where this occurs there may be insufficient cashflow in the Fund to meet interest distributions or redemption requests. All loans are monitored by experienced personnel employed by the Manager in its mortgage management division.

As at 29 February 2008 the percentage of mortgage loans in the Fund where interest payments were built into the loan facilities was 52.71 % of the mortgage portfolio.

Credit Risk

This is the risk that a borrower may not meet its obligations in full and/or on time to pay interest and repay capital financial obligations. The Manager mitigates this risk by utilising a conservative lending strategy in relation to the mortgages and following strict lending guidelines.

Liquidity Risk

A delay in meeting an investor's withdrawal request is possible where there are a significant number of withdrawal requests received at the same time, which absorb the cash reserves of the Fund and if assets of the Fund are not sufficiently liquid.

Generally the Manager is required by the constitution to satisfy redemption requests within 180 days. In certain circumstances, that period may be extended to 365 days or the Manager may be entitled to suspend redemptions. The Manager has a liquidity policy that is monitored by the Board to adequately manage payment of withdrawals within the time period specified. Refer to the paragraph headed "Withdrawal from the Fund" on page 31 of this PDS for further details.

The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia for \$215 million which can be utilised in liquidity management or to allow the Manager to take advantage of competitive commercial lending opportunities for the Fund.

Arrears of the Fund's Mortage Portfolio

The Manager utilises its property expertise and its Arrears Management Policies and Procedures to secure realisation and exit strategies for all arrears loans.

Further details of the arrears management processes are outlined on page 11 of this PDS.

Share Market Risks

The Fund may invest in specialist managed funds which in turn hold income bearing cash investments, long and short term securities (including equity securities and derivatives on securities) which may be quoted on recognised stock exchanges. The value of these investments might decline for reasons including domestic and international economic conditions, changes in government fiscal, monetary and regulatory policies, changes in interest rates and currency exchange rates, the rate of inflation or changes in the circumstances of the companies or funds in which the specialist managed funds invest. A return on investments in the specialist managed funds or repayment of capital invested is not guaranteed. As at the date of this PDS, the Manager has a policy limiting the proportion of Fund's assets invested with other specialist fund managers to 10%.

The Manager mitigates this risk by utilising specialist fund managers to invest the Fund's assets held in this sector. Each specialist is chosen following an extensive and rigorous research process that examines their investment style, the expertise of their investment team and a range of other factors. The Manager reviews each specialist fund manager's performance on an ongoing basis, ensuring that they operate within the mandated expectations and guidelines.

Borrowing risk

Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA") for \$215 million. This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity, interest distributions or funding loan commitments. At the date of this PDS the amount owing to the CBAwas \$155 million. As at the date of this PDS the interest rate of the facility is variable and is priced between 0.50% to 1.10% above the respective BBSY bid rate. The facility term is the subject of an annual review. The finance facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility will be repaid via investment inflows and inflows received from principal repayments from borrowers. This facility or a similar facility may be varied from time to time in order to manage the Fund. Insufficient income generated by the Fund to service the CBA debt, increases in the bank interest rate or an unforeseen refusal of the financier to extend the term of any facility could cause the Fund to default on its loan.

Government Policies

Investment performance may be affected by changes to government policy in relation to taxes, exchange rates, legislative changes, land tax, income tax and other government factors. These factors are generally beyond the control of the Manager.

About LM Investment Management Ltd

LM Investment Management Ltd ("the Manager") is an Australian funds manager operating internationally from offices on the Gold Coast, in Sydney, Hong Kong, New Zealand and London. In conjunction with its network of authorised financial adviser groups domestically and abroad, LM provides an established investment product with a range of flexible options, focused on achieving income and flexibility to the investing public.

Since inception in 1998, the Manager has become a growing presence in the financial services markets throughout Australia, Hong Kong, Asia, the Middle East, United Kingdom and New Zealand.

Recognised as a specialist funds manager within the AUD\$22 billion mainstream mortgage trust sector, LM Investment Management Ltd manages one of Australia's largest mortgage trusts, the LM First Mortgage Income Fund. The Manager's other funds under management include the LM Wholesale First Mortgage Income Fund, the LM Institutional Currency Protected Australian Income Fund and the LM Cash Performance Fund.

The Manager is licensed with the Australian Securities and Investments Commission ("ASIC") as a Responsible Entity and Australian Financial Services Licensee. Independent audits of its registered funds, their compliance plans and the Manager are conducted at least annually.

The Manager specialises in professional and responsive financial services, and is a highly regarded lending institution within Australia's business and property sectors.

Management Principles

The Manager's corporate vision is to be recognised as a leading, innovative and prudential funds manager. The management team has a common understanding of business principles to ensure the vision is upheld. These principles include:-

- delivering a high level of service with clear communication and genuine empathy for clients;
- offering qualitative investment and lending products;
- using a research driven approach to anticipate market changes and seek new opportunities:-
 - to protect the delivery of income; and
 - to protect the delivery of a stable unit price.

The Manager's commitment to offering clients a competitive advantage with service is demonstrated by its use of information, technology delivering 24 hour access to online investment reporting.

Key Personnel

The Directors of the Manager collectively offer considerable years of experience and specialist knowledge from the finance, insurance, legal and property sectors. The Manager also carries a vast depth of professional property and business related experience across all business units.

The Manager's personnel are strategic thinkers with the foresight to identify quality investment opportunities, while keeping their fingers on the pulse of Australia's property and finance markets. The Manager blends this foresight with a sound investment philosophy to seek optimum results for investors.

The Directors encourage the key decision makers at LM investment Management Ltd to take a 'hands-on' approach when seeking new investment opportunities and anticipating market changes.

Financial intermediaries and investors have direct access to a staff which provides prompt professional assistance. Our relationships are built on honest and open communication and a genuine appreciation of our clients' needs.

Corporate Governance

The Board of LM Investment Management Ltd generally meets quarterly to discuss the strategic direction of LM and the monitoring of its funds. The Manager has a strong commitment to corporate governance, compliance and risk management. The Manager has a committee based structure for all major decision making processes to ensure ultimate protection of investor funds.

Executives and a representative of the Board meet weekly to discuss issues pertinent to the Manager and its funds. Each executive is responsible to the Board for the operation of their own business unit. The Funds Management Committee meets monthly to analyse and review performance of the funds. The Compliance Committee generally meets quarterly to monitor and review compliance systems and processes to ensure that they are in accordance with the Compliance Program and registered funds' compliance plans.

The Manager follows a disciplined research driven approach to investment. The Manager's Property Research and Analysis Committee ("PRAC"), specifically targets locations offering property growth opportunities and property sectors which are expected to perform.

The Board and management also have access to a range of independent and expert advisers to assist on particular technical issues.

As an unlisted public company, the Manager is the subject of yearly financial audits. The audits are a requirement under the Corporations Act 2001. These audits are performed by Ernst & Young, an international accounting firm. Ernst & Young also perform financial and compliance audits on the Manager's registered funds on a bi-annual and/or annual basis dependent on the relevant fund's compliance requirements.

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Peter Charles Drake, Chairman and Chief Executive Officer

As CEO Peter is principally responsible for the strategic vision, direction and the structured growth of LM Investment Management Ltd ("LM"). Peter has been involved in the financial services industry since 1978, and is particularly active in investment product design. Working closely with LM's Portfolio Manager to manage the growth of funds under management, Peter also plays an integral role in LM's Funds Management Committee, and Credit Committee. Peter's vision of an innovative and prudential funds manager holds true as LM continues its dynamic growth in the Australian financial services sector.



Lisa Maree Darcy, Executive Director

Lisa joined LM Investment Management Ltd in 1998 and was appointed Executive Director in September 2003. Lisa is principally responsible for all accounting functions of both LM Investment Management Ltd and its registered schemes. She works closely with LM's Portfolio Manager, to manage the growth of funds under management. Lisa plays an integral role in LM's Funds Management Committee and Credit Committee. With more than 20 years experience in the banking and financial planning industry, including financial accounting and funds management, Lisa makes a valuable contribution to LM's ongoing management of investment funds and financial services. Lisa holds a Bachelor of Business from Griffith University.



Eghard van der Hoven, Executive Director, Portfolio Manager

In 2003 Eghard joined LM Investment Management Ltd as Portfolio Manager, responsible for the monitoring and ongoing performance of LM's various funds. As Executive Director, Eghard's sound understanding of the investment industry spanning almost 20 years includes extensive experience in stock broking, auditing, investment analysis, business strategy and policy planning. As the Chair of LM's Funds Management Committee, Eghard is responsible for joint decisions in relation to the asset allocation, geographic spread allocation, cash flow, delivery rate forecasting and budgeting of LM's funds. Eghard also sits on the Credit Committee and the Arrears Management Committee. He holds a Master of Commerce, majoring in Economics, and a Bachelor of Commerce (Hons) in Economics, from University of Pretoria, South Africa.



Francene Maree Mulder, Executive Director, General Manager Distribution/Product

Francene commenced with LM Investment Management Ltd in 1999, following a 20 year career in the commercial, legal and securities sectors. Prior to joining LM Investment Management Ltd, Francene held managerial positions focused on the areas of commercial mortgages, conveyancing and the property sector. Specific experience in mortgage securities and the marketing of financial products provided a solid background for Francene to successfully undertake her role within LM. As Executive Director, Francene is primarily responsible for the marketing and expansion of distribution of LM's products on a wholesale and retail basis, throughout Australia and international markets. Francene takes an active role in the direction of all client communication, company communication and service. Francene is also a member of the Property Research and Analysis Committee, Funds Management Committee, Credit Committee and Arrears Committee.



John Dillon, Non-Executive Director

John holds more than 30 years strategic and managerial expertise in the business and development sectors domestically and abroad. As Non-Executive Director, John's experience complements the continued strategic growth of LM Investment Management Ltd as an Australian funds manager with international operations. John's previous managerial experience includes the strategic and financial growth of Vision Cabinets Pty Ltd, a specialist cabinetry business that services a range of residential and commercial clients nationally. Prior to Vision, John was Managing Director ASEAN of Occidental Chemicals, responsible for the administration, manufacture and distribution to the Association of South East Asian Nations (ASEAN). He also holds a Bachelor of Commerce from the University of New South Wales.



Val Lieweliyn, Non-Executive Director

Val holds over 30 years' management experience in the engineering, manufacturing, labour hire and training sectors in Australia, London and Wales. In 1982, Val emigrated with his family to Australia, establishing Axial Engineers, then later established Axial HR, an industrial labour hire operation to operate alongside Axial Engineers. In 1996, Val became sole shareholder and Director of the Axial group of companies, and in 1997 established Axial Training to train new apprentices, supervisors and managers in the manufacturing, engineering, mining, warehousing, food processing (butchery), retail and business sectors. The Axial Group currently operates from six locations throughout Queensland and also in Perth. Val is a qualified Chartered Accountant, admitted as a Member of the Institute of Chartered Accountants in England and Wales in 1972.



John C'Sulfivan, Non-Executive Director

John has over 20 years experience in funds management and investment advice in Europe, Asia and Australia. His previous roles have included CEO and Partner of a large advisory business in New Zealand, General Manager of Oceanic Life in New Zealand and Director of Oceanic Funds Management in Australia. When Oceanic was purchased by Sun Alliance, he was appointed New Zealand Manager of Sun Alliance Asset Management. He is currently Managing Director of his own distribution company, O'Sullivan Capital Management Ltd.

Additional Information

Payment and Other Instructions

Each investor releases, discharges and agrees to indemnify the Manager from and against all actions, proceedings, accounts, claims and demands whatsoever and howsoever arising from or in connection with or in any way related to the Manager in good faith accepting and acting on instructions received in writing, by facsimile transmission or by scanned image which are signed by or purported to be signed by an authorised signatory or signatories.

Fax & Scanned Images - Terms and Conditions

You should understand that a person without your authority could send the Manager a fax or scanned image, and by pretending to be you, transfer or withdraw funds from your account for their own benefit or request any other changes to your account.

In using fax or scan facilities, you agree that the Manager is not responsible to you for any fraudulently completed communications and that the Manager will not compensate you for any losses.

You agree that should such a fraud take place you release and indemnify the Manager against any liabilities whatsoever arising from the Manager acting on any communication received by fax or scanned image in respect of your investment, to the extent permitted by law.

The Manager will not be liable for any loss or delay resulting from the non-receipt of any transmission. These terms and conditions are in addition to any other requirements that may form part of your giving instructions relating to the completion of a particular authority.

By sending the Manager a fax or scanned image you signify your acceptance of these conditions,

Changes to Terms and Conditions

The fees that apply to investors' investment accounts can change from time to time. Investment terms and conditions can also be changed by the Manager giving notice of the changes. Investors will need to contact their adviser or the Manager, or access the Manager's website to find out the terms and conditions which apply from time to time.

Appointment of Authorised Delegate

An 'authorised delegate' is any company, partnership or individual appointed by an investor to operate their account. The most common arrangement is to appoint an investor's financial adviser to enable him or her to better manage the investor's financial affairs.

An investor may appoint an authorised delegate by signing and dating the authority on the Application Form. The authorised delegate must also sign the authority. Where the authorised delegate is a corporation or a partnership, a duly authorised officer or partner of the authorised delegate must sign the authority. The Manager may require proof of authorisation.

The authorised delegate has the same powers as an investor to access investments, make further investments in the Fund on behalf of the investor or to make written requests for withdrawals from the Fund. Such withdrawal may only be paid to the account nominated on the Application Form. In the case of an authorised delegate which is a corporation or a partnership, the Manager may act on the instructions of any person it reasonably believes to be an authorised officer or partner, and any instruction given by such an officer or partner shall be deemed to have been given by the authorised delegate.

Investors may at any time, in writing, notify the Manager of the revocation of appointment of an authorised delegate. Such revocation however, will not be effective until the Manager has acknowledged the revocation in writing.

By signing the authority on the Application Form, an investor agrees to release, discharge and indemnify the Manager from and against all actions, proceedings, accounts, claims and demands arising from the release of information to the authorised delegate named on the Application Form, or in respect of any loss or liability arising out of any transaction or dealing made or purported to be made pursuant to an actual, purported or alleged direction or authority of an authorised delegate, notwithstanding the fact that the transaction or dealing was requested or received without the authorised delegate's or the investor's knowledge or authority.

Joint Investors

If an investor's investment is held jointly with one or more other persons, the Manager can send notices, statements or other documents (including any changes to investment terms and conditions) by mailing them to any one of the joint holders (that is, the first investor or any of the other joint holders) at their nominated correspondence address. The investors will be deemed to have received the notice, statement or other document on the second business day after it is sent. If the Manager gives these notices, statements or other documents to any one of the joint holders, their authorised delegate or adviser, they will be deemed to have been received by all of the joint holders.

Applications signed by several parties are deemed to be signed as joint tenants and unless otherwise agreed all parties must sign to authorise a withdrawal.

Privacy - use and disclosure of personal information

The privacy of an investor's personal information is important to the Manager. The purpose of collecting investor information on the Application Form is to process the application and manage an investor's investment in the Fund. If the information an investor gives is not complete or accurate, the Manager may not be able to provide the products and services applied for.

In processing the application and managing investors' investments in the Fund, the Manager may disclose personal information to other parties such as an investor's financial adviser and/or IT service providers of financial advisers, the financial adviser's licensee or as required by law.

Investors are entitled to request reasonable access to their personal information. The Manager reserves the right to charge an administration fee for collating the information requested.

For further details on the Manager's Privacy Policy please visit the Manager's website at www.LMaustralia.com.

The Constitution for the Fund

The constitution for the Fund is a legal contract between the Manager as responsible entity and each investor. The constitution together with the Corporations Act and other relevant law governs the relationship between the Manager and investors, the Manager's duties as a responsible entity and the way the Manager must operate the Fund. The constitution includes provisions which deal with:-

- the rights of investors;
- the duties and obligations of the Manager as the responsible entity;
- investment and borrowing powers of the Manager,
- ability of the Manager to be indemnified by the Fund for all expenses, losses and liabilities arising in its capacity as responsible entity provided it has properly performed its duties;
- ability to remove the Manager,

- unit issue and redemption procedures;
- convening and conduct of the Fund's investor meetings;
- the duration and termination of the Fund; and
- rights to Fund interest distributions.

The terms and conditions of the constitution are binding on investors and the Manager as the responsible entity of the Fund.

The statements in this PDS only provide a summary of some of the provisions of the constitution. The Manager may change the constitution in accordance with the Corporations Act 2001. However any change that may adversely affect investors' rights must be approved by special resolution of the investors.

Classes Of Units

The Fund constitution authorises the Manager to issue different classes of units with special rights or restrictions as determined by the Manager from time to time. The interest distribution rate offered or paid to the different classes may vary. The Manager is required under the Corporations Act to treat all investors within a class of units equally and as between classes fairly. The Manager has created separate classes of units in the Fund representing each different type of investment. The Manager will only issue new classes of units where it considers it appropriate having regard to the interests of existing investors and in accordance with the Manager's obligations under the Corporations Act and the constitution.

Invitation Only Wholesale Clients in the Fund

The Manager may invite wholesale clients to invest in the Fund. Such an investor must provide 1 business day's notice of redemption of the investment to the Manager but is otherwise subject to the withdrawal provisions as outlined in the paragraph headed "Withdrawal from the Fund" on page 31 of this PDS. The interest distribution rate for such investors will be determined by the Manager from time to time. The Manager may waive the whole or part of its Management Fee in respect of such investors. The Manager may also waive the whole or part of its Management Fee in relation to investments by its employees, or employees of a related body corporate of the Manager.

The above arrangements constitute differential fee arrangements under ASIC Class Order 03/217 (as amended) and are offered to wholesale clients (within the meaning of section 761G of the Corporations Act 2001) or employees of the Manager, or of a related body corporate of the Manager.

The Manager also issues units to relatives of the Manager's employees, and waives the whole or part of its Management Fee for those members. Those members hold units of different classes to the units held by other members in the Fund.

The Nature of Units of the Fund

Each unit gives the holder an undivided interest in the Fund. However, a unit does not confer any interest in any particular asset of the Fund and does not entitle the holder to have any of the assets of the Fund transferred to them or to interfere with any of the Manager's rights or powers.

Powers and Duties of the Responsible Entity

All of the assets and undertakings of the Fund vest in the Manager to hold on trust for investors. In relation to the assets of the Fund the Manager has all of the powers of a natural person who is the absolute beneficial owner of the assets.

The Manager must act in accordance with the constitution and the Corporations Act 2001 and is responsible for administering the

Fund, determining investment policy, selecting and managing the investments, valuing the investments, sending notices and reports to investors, arranging investors' meetings, accepting or rejecting applications for investment, calculating the number of units to be issued or withdrawn, maintaining a register of investments, payments of interest distributions to investors, preparation and interest distribution of cheques, managing the Fund borrowings and ensuring that the Fund is carried on and conducted in a proper and efficient manner. The Manager is entitled to various indemnities under the constitutions.

Withdrawal from the Fund

Generally the Manager is required by the constitution to satisfy withdrawal requests within 180 days. In certain circumstances, that period may be extended to 365 days or the Manager may be entitled to suspend withdrawals in order to protect all investments. The Manager has a liquidity policy that is monitored by the Board to adequately manage payment of withdrawals within the time period specified. The Manager may suspend withdrawals where:

- the Fund's cash reserves fall and remain below 5% for 10 consecutive Business Days; or
- if in any period of 90 days, the Manager receives net withdrawal requests equal to 10% or more of the Fund's issued units and, during the period of 10 consecutive days falling within the 90 day period, the Fund's cash reserves are less than 10% of the total assets; or
- iii it is not satisfied that sufficient cash reserves are available to pay the withdrawal price on the appropriate date and to pay all actual and contingent liabilities of the Fund; or
- (iv) any other event or circumstance arises which the Manager considers in its absolute discretion may be detrimental to the interests of the members of the Fund.

Historically, the Fund has successfully met all withdrawal requests on time and in full. This is due to the liquidity management of the Fund and the structure of the investment terms (although past performance is not an indicator of future performance).

The Manager does not expect that the Fund will be a managed investment scheme that is not liquid as that term is defined in the Corporations Act.

Part 5C.6 of the Corporations Act provides that a managed investment scheme is liquid if liquid assets account for at least 80% of the value of scheme property. Liquid assets would ordinarily include money in an account or on deposit with a bank, bank accepted bills, marketable securities, or any other property (including the mortgage loans of the Fund) which the Manager reasonably expects can be realised for its market value within the period specified in the Fund's constitution for satisfying withdrawal requests while the Fund is liquid. The liquidity of the Fund is therefore dependant on whether 80% of the Fund property (including the mortgage loans) can be realised for its market value within the period specified in the constitution for satisfying withdrawal requests while the Fund is liquid. In the unlikely event that the Fund is not liquid, an investor will only be able to withdraw their investment in the manner specified in s601KB to s601KE of the Corporations Act, which would include making written withdrawal offers to all investors (or all investors of a particular class) based on the units they hold in the Fund.

Authorised investments of the Fund

The Manager may invest in "Authorised Investments" as defined in the constitution, which includes but is not limited to bank deposits, investments in cash, stocks, bonds, notes or other securities or derivatives and options over securities or derivatives, loans and interests in any registered managed investment scheme (as defined in the Corporations Act 2001).

To the extent that they may affect the value or performance of an underlying investment the Manager may take into account labour standards, or environmental, social or ethical considerations when making, retaining or realising an investment in the Fund. The Manager has no predetermined view about how far such matters will be taken into account, and the Manager will make a determination on such issues on a case by case basis.

Appointment and Removal of the Manager

The Manager may retire in accordance with the Corporations Act 2001. Investors of the Fund by extraordinary resolution may remove the Manager and appoint a new responsible entity of the Fund.

Borrowings of the Fund

Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager.

The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA") for \$215 million. This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity, interest distributions or funding loan commitments. At the date of this PDS the amount owing to the CBA was \$155 million. As at the date of this PDS the interest rate of the facility is variable and is priced between 0.50% to 1.10% above the respective BBSY bid rate. The facility term is the subject of an annual review. The finance facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility will be repaid via investment inflows and inflows received from principal repayments from borrowers. This facility or a similar facility may be varied from time to time in order to manage the Fund.

The Manager's Indemnity

To the extent allowed by law, the Manager is indemnified out of the Fund against any claim, action, damage, loss, liability, costs, expense or payment which the Manager incurs or is liable for in relation to the Fund, provided that it does not arise from the fraud, negligence or wilful default of the Manager or its employees.

Expenses

All expenses reasonably and properly incurred by the Manager in connection with managing the Fund are payable or able to be reimbursed out of the assets of the Fund. These expenses include:

- preparation, review, distribution and promotion of any offer document;
- the sale, purchase, insurance, custody and any other dealing with assets;
- any proposed investment;
- administration, management and promotion of the Fund;
- communicating with, or convening and holding meetings of and dealings with investors;
- tax (provided it is not on the personal account of the Manager) and bank fees;
- the engagement of experts and advisers;

- preparation and audit of the taxation returns and financial statements of the Fund:
- termination of the Fund and the retirement or removal of the Manager and the appointment of a new responsible entity; and
- any court proceedings, arbitration or other dispute concerning the operation of the Fund or any asset of the Fund

Fees payable to an adviser of an investor will also be expenses of the Fund.

Liability of Investors

The constitution limits the liability of investors to the amount of their investment. However, the Manager cannot give an absolute assurance on this matter as the issue of the investor's liability has not been fully resolved by the courts.

Compliance Plan

As a responsible entity, the Manager is required to adhere to the compliance plan for the operation of the Fund. The compliance plan sets out compliance measures in relation to the conduct of the Fund and its business. The compliance plan is designed to document compliance risks, the monitoring process, and provide a basis for compliance adherence and auditing. The compliance plan is lodged with ASIC and is independently audited annually.

The Manager's Board and Compliance Committee monitor and review its compliance plans to ensure that all compliance systems are followed.

Investment Procedures and Policies

Investment procedures and policies of the Manager are reviewed on an ongoing basis. Outlined below is a broad overview of the investment and lending procedures that apply to the Fund.

Investments by the Manager

The Manager has policies in relation to investing the Fund's assets with specialised fund managers of registered managed investment schemes (as defined by the Corporations Act 2001). A specialist fund manager is only chosen if the Manager is fully satisfied with its due diligence conducted on the specialist fund manager which includes the investment style, expertise of their investment team and a range of other factors. The Manager constantly monitors and reviews each specialist fund manager's performance ensuring that they operate within mandated expectations and guidelines.

At the date of this PDS, the Manager has a policy of limiting investment with specialist fund managers that invest in income bearing cash investments, equity securities and options to 10% of the assets of the Fund.

Lending Criteria of the Fund

- The Manager has determined and documented lending policies for the approval and management of mortgages. Risk management is a priority, with mortgages diversified over a number of levels including geographic location, sector, loan size, interest rate and maturity profile.
- The type of real estate offered for security must be acceptable to the Manager. Typical mortgage securities will include commercial, industrial and residential real estate (including development loans across these sectors) secured by a registered first mortgage. A first mortgage must be registered on the primary security property.

- The value of the security property must be established in accordance with the valuations policy of the Manager,
- The ability of the borrower to service the facility must be established to the satisfaction of the Manager.

Development Loans

The following additional requirements are imposed in the case of development loans:

- The initial drawdown for the facility is arrived at after considering both the approved loan to valuation ratio on the "as is" valuation and the "cost to complete" formula. The initial drawdown must meet the loan to valuation ratio required and also allow sufficient funds to be available in the facility to complete the development. The project feasibility must reflect the "cost to complete" formula throughout the life of the project. The concept of a "cost to complete" formula is that the lender always retains sufficient funds within the loan facility to complete the development based on its assessment of the actual cost to complete the project.
- Additional development loan procedures are required throughout the development stages of the loan to ensure the development is adequately monitored.
- Where applicable a tripartite agreement is made between the Manager, the borrower and the builder. This enables the Manager, in the event of default by the borrower, to deal directly with the builder.

Credit Committee

The Credit Committee is an internal review committee for all mortgage investments and is independent from all other departments. The Credit Committee meets as required to consider proposed and actual investment opportunities. The Credit Committee contains a broad experience base and includes departmental team leaders for planning purposes.

New mortgage investment proposals are put forward by the commercial lending department for consideration with a written summary. The Credit Committee is responsible for setting the primary terms and conditions upon which subsequent approval will be based.

When mortgage investment proposals are completed in accordance with the Manager's credit standards they are required to be finally approved by the Credit Committee.

Valuations Policy

All real property assets of the Fund are required to be valued prior to settlement of each transaction. Valuations may only be carried out by the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and must adhere to the Manager's valuation guidelines. The Manager has determined and documented valuation review procedures for guidance on each valuation.

Appropriate instructions must be given to the valuer having regard to the type of valuation required. In particular the instructions should indicate the type of valuation required eg. "as is" or "on completion".

The Manager, in accordance with its valuations review guidelines is responsible for the review of all valuations. Unresolved issues arising from a review must be referred to an executive director for discussion and determination.

As an internal checking mechanism, an independent property

report is obtained (where appropriate) from two real estate agents or an alternate valuers report whose normal trade area encompasses the property being valued.

The valuer must have appropriate professional indemnity insurance.

The valuer must certify they are independent of both the borrower and the security property.

The Manager does not accept valuations performed on the instruction of borrowers. The Manager requires that valuations be provided on the Manager's instructions, or that valuers confirm that their valuations adhere to the Manager's requirements.

An updated valuation will generally be required where a loan term is extended or a loan is otherwise varied. An updated valuation will also generally be required for commercial loans at 24 month intervals and construction loans at 12 month intervals. The requirement for an updated valuation may be waived where the Manager considers that an updated valuation would serve no useful purpose (eg where it is demonstrable that property values have increased or not changed in the locality of the property, where a property under construction is significantly presold, where a commercial property has long term leases in place, where a sale or refinance is imminent or where the loan to valuation ratio of the property is low).

Valuation Panel

Members of the valuation panel are appointed and removed in accordance with the Manager's valuation panel appointment guidelines. The Manager is responsible for approving the appointment or removal of a panel valuer.

Development Valuations

Separate valuations (may be within the one valuation report) are required in relation to "as is" and "on completion" valuations.

"As is" Valuation

The "as is" valuation is the market valuation of the property at the time of the initial drawdown. The loan to valuation ratio in this case must fall within the Manager's lending criteria.

"On Completion" Valuation

The "on completion" value is the market value of the property at the completion of development. The valuation methodology required is as follows:

- "feasibility analysis" including demolition, subdivisional, construction, and other development costs, allowances for sales and marketing expenses, interest and an allowance for profit and risk to arrive at a base value for the land. Any such analysis is based on the premise that the development approval has or will be obtained prior to settlement of the loan. Alternatively, the valuation must contain an adjustment for any uncertainty attaching to the development approval process. The requirement for a feasibility analysis may be satisfied, if appropriate, using alternate techniques such as discounted cash flows; and
- "gross realisation" based on comparable sales evidence for the individual components eg. houses, units, allotments etc.

The Manager will reasonably assess the appropriateness of the feasibility analysis within the valuer's report by comparison with cost estimates provided by a competent quantity surveyor selected from the Manager's panel. The "on completion" value is the valuation figure used in the cost to complete calculations during the development phase. The "on completion" value may be revised during the term of development to reflect changes as approved by the Manager.

Complaints Procedure

If an investor has a complaint they should generally first contact their adviser. If the adviser is unavailable, unwilling, or unable to assist, or if the investor wishes to directly contact the Manager, and the complaint relates to the Fund or the Manager, then the investor should contact the Client Relations Department at the office of the Manager on free call 1800 062 919 (Australia only) or +617 5584 4500. Complaints may be made in writing or by telephone. The Manager will respond within 30 days of receiving the complaint. If complaints cannot be resolved internally the Manager will refer the complainant to the Financial Industry Complaints Service ("FICS"), an external industry complaints body which has been approved by ASIC and of which the Manager is a member.

Financial Industry Complaints Service Limited PO Box 576 Collins Street MELBOURNE VIC 8007

Telephone: 1800 335 405 Facsimile: (03) 9621 2291 email: fics@fics.asn.au

Interests of the Manager

Pursuant to the compliance plan, the Manager and the employees and officers of the Manager and the various investment schemes of the Manager, are entitled to apply for units in the Fund. The Manager will be a wholesale investor and may be offered a differential fee arrangement in these circumstances.

Related Parties

Peter Drake, a director of the Manager is the beneficial owner of LM Administration Pty Ltd, which has been engaged by LM Investment Management Ltd to provide administration services at a commercial arms-length fee. In addition to this LM Administration Pty Ltd provides administration and funds management services to the Fund and is paid a management fee direct from the Fund.

John O'Sullivan, a non-executive director of the Manager is the beneficial owner of O'Sullivan Capital Management Ltd. O'Sullivan Capital Management Ltd has been engaged by LM Investment Management Ltd to provide marketing services in New Zealand at a commercial arms-length fee. This fee is paid by the Fund.

The Fund may lend to related parties provided the loans are on commercial arms-length terms and are subject to review by the Board.

The Board of the Manager is responsible for reviewing and approving the structure and probity of commercial dealings between the Manager and any related parties. Fees issued to the account of the Fund by related parties, which are recoverable from the Fund must be on commercial arms-length terms and are subject to review by the Board.

Related Party Loans of the LM First Mortgage Income Fund

Name	Loan balance as at 29 February 2008	Interest rate	Percentage of total loan portfolio
Australian International Investment Services Pty Ltd*	\$7,779,519	10.5%	1%

* Australian International Investment Services Pty Ltd is 100% owned by the LM Managed Performance Fund (a related investment fund), which has entered into a joint venture with a property developer to develop land in Canberra.

The Fund is lending money on commercial terms and conditions to Australian International Investment Services Pty Ltd.

The Manager received establishment fees of 1% of the total loan amount (\$7,779,519) for this loan.

Related Party Finance

The Manager is the Responsible Entity of the LM Managed Performance Fund. From time to time the LM Managed Performance Fund advances loans by way of second mortgages to borrowers who have first mortgage advances from the Fund. At 29 February 2008 there are 8 such loans by the LM Managed Performance Fund in the total amount of \$27,387,416. In these instances the Fund enters into Priority Deeds with the borrower as part of normal loan documentation procedures. The LM Managed Performance Fund generates fees, charges and interest rates all of which are paid by the borrower.

Conflicts of Interest Management

The Manager has a documented Conflicts Management Policy which deals with the identification, assessment and treatment of conflicts of interest and related party transactions. The Risk Manager has responsibility for conflicts and prepares conflict records for each conflict or related party transaction identified. Board approval is required for all related party transactions.

Manager's Liability

To the extent allowed by law the Manager is not liable for any loss or damage to any person (including any investor) arising out of any matter provided the Manager acts in good faith and in accordance with the constitution.

This PDS has been prepared by the Manager based on information within its own knowledge or provided to it by its advisers. Other than as required by law, no responsibility is taken by the Manager or any parties mentioned in this PDS for any statement made in relation to the Fund other than those statements made in this PDS. Neither the Manager, nor any other party gives any guarantee with respect to the performance of the Fund. The Manager has authorised the issue of this PDS. The Manager does not purport to advise investors in relation to this investment or their taxation position.

Custodian's Disclosures and Disclaimer Interests of the Custodian

The custodian has no interest in relation to the Fund, and has not received any inducements other than the remuneration it is entitled to receive under the relevant custody agreement or constitution by way of custodian fees.

The custodian fees for the LM First Mortgage Income Fund are currently the greater of 0.02% pa of the assets of the LM First Mortgage Income Fund or \$20,000 pa.

It is the intention of the Manager to take over the role of custodian of the Fund during the life of this PDS. All legislative requirements will be adhered to by the Manager at that time.

Custodian Disclaimer

The role of the custodian is to hold the assets of the Fund and title documents as agent for the Manager. It is not the role of the custodian to protect the rights and interests of the Fund's investors.

The custodian does not guarantee the return of any investment, any tax deduction availability or the performance of the Fund.

Consent by Auditors

Ernst & Young, financial and compliance auditors, have consented to be named in this PDS in the form and context in which they appear. Ernst & Young is not responsible for, nor has it caused or authorised the issue of this PDS.

Continuous Disclosure

The Fund is a disclosing entity for Corporations Act purposes and as such is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Fund may be obtained from, or inspected at, an ASIC office.

Investors have a right to obtain a copy of the following documents:

- the annual financial report for the Fund;
- any half-year financial report lodged with ASIC; and
- any continuous disclosure notices given by the Fund.

Effect of International Accounting Standards

Under AASB 132 "Financial Instruments: Disclosures and Presentations", contractual obligations are regarded as liabilities. As unitholders have the ability to redeem units from the Fund, all unitholders' funds are recognised as liabilities of the Fund, rather than equity. The result of this is to reduce the net assets of the Fund to zero. As interest distributions paid and payable make up a proportion of unitholders' funds, they will be classified as interest expenses in the Statement of Financial Performance.

AASB139 requires assets to be classified into one of four categories depending on the type of asset.

Investments are classified as either held to maturity investments or available for sale financial assets depending on the type of investment. Those investments that are held to maturity are measured at amortised cost using the effective interest rate method. The investments that are classified as available for sale are measured at a fair value basis each reporting period, with any movement in fair value being reflected through the equity reserve.

Under the Australian Equivalent of the International Financial Reporting Standards (AIFSR) the Fund is required to recognise all the derivative financial instruments at fair value on the balance sheet. Where possible, the Fund will adopt hedge accounting so that the gains and losses on the financial instrument are recognised in line with income recognition for the hedged term and the volatility in the profit and loss is minimised.

Where hedging accounting cannot be adopted the gains and losses on the financial instrument are recognised at fair value with changes in fair value recorded through the profit and loss.

Where fair value hedge accounting is used, fair value changes on

both the hedged item and the hedging instrument are recognised directly in the profit and loss. Where cash flow hedge accounting is used the carrying value of the hedged item is not adjusted and the fair value changes on the related hedging instrument are reflected in a separate equity reserve and are then transferred to the profit and loss at the time the hedged item is realised.

The Fund uses cash flow hedge accounting. As such there is a potential for volatility in the equity reserve.

Electronic PDS

This PDS is available in electronic form at www.LMaustralia.com. Any person receiving this PDS electronically will on request be sent a paper copy of the PDS (and attached Application Form) by the Manager free of charge during the period of the offer. Applications must be made by completing a paper copy of the Application Form which forms part of this PDS.

The Manager will not accept a completed Application Form if it has reason to believe that the applicant has not received a complete paper copy or electronic copy of the PDS or if it has reason to believe that the Application Form or electronic copy of the PDS has been altered or tampered with in any way. While the Manager believes that it is extremely unlikely that during the period of the offer the electronic version of the PDS will be tampered with or altered in any way, the Manager cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of the PDS should immediately request a paper copy of the PDS direct from the Manager or their adviser.

LM First Mortgage Income Fund ARSNIBB 24520

Supplementary Product Disclosure Statement 28 November 2008

This is the Supplementary Product Disclosure Statement ("First SPDS") that supplements the Product Disclosure Statement issued on 10 April 2008 ("PDS") for the LM First Mortgage Income Fund ARSN 089 343 288 (the "Fund"). Investors should read this First SPDS together with the PDS prior to investing in the LM First Mortgage Income Fund.

The purpose of this First SPDS is to update investors as follows:-

- New investors (or investors rolling over their existing investments) may now nominate monthly distributions for non-Australian dollar currency hedged fixed investment terms;
- This document contains updated information in relation to the Fund; and
- This document includes information to comply with the requirements of ASIC's Regulatory Guide 45 "Mortgage Schemes Improving Disclosure for Retail Investors" released in September 2008.

Monthly Distributions now Available for Non-Australian Dollar Currency Hedged Fixed investment Terms as well as Australian Dollar Fixed Investment Terms

Non-Australian dollar currency hedged fixed term investors may elect to have their distributions electronically credited to the investor's nominated financial institution account on a monthly basis. If the distribution is electronically credited monthly to an investor's financial institution account the distribution is not hedged. The distribution is not hedged as the Fund pays the monthly distribution directly from the earnings of the Fund in Australian dollars. The distribution does not form part of the FFEC as it does for a non-AUD investment where the interest is paid at maturity.

Such distributions will be paid within 5 business days of the monthly anniversary of the day the investment begins. For example, if the investment commences on 15 June the distribution will be paid by 20 July. Investors should note that financial institutions may charge a remittance fee which will be deducted from the investor's distribution amount.

If an investor wants to change the distribution instructions it can only do so on rollover of the investment and written notice must be received by the Manager at least 5 business days prior to the maturity date.

Calculation of Monthly Distribution

The calculation of the value of the unhedged distribution will be as follows:-

- The simple rate of return in the relevant non-AUD currency will be converted to the AUD value at the spot rate as at the day of the initial trade date. For example-
 - * Investor invests USD\$100K at an effective rate of 5.75%pa, the simple rate is 5.60%pa;
 - The USD\$100K investment will earn interest of USD\$5.600 calculated as follows:- USD\$100K x 5.60%pa for 12 months = USD\$5,600;
 - € The total distribution amount of USD\$5,600 is converted to AUD at the spot rate of 0.93 = AUD\$6,022;
 - ← Investor will be paid monthly distributions of AUD\$501.83 calculated as follows:- AUD\$6,022/12 = AUD\$501.83.

Interest rates are variable and may change during the investment.

To Apply for Monthly Distributions for Non-Australian Dollar Currency Hedged Fixed Investment Terms

If a non-Australian dollar investor wants to elect to have their distributions paid monthly, when completing the Application Form they should write in Section 11 of the Application Form (Page 48 of the PDS) "Interest distributions are to be paid monthly to the bank account nominated in Section 15".

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ASIC Benchmark Disclosure for Investors

The information in the table below is provided to comply with the requirements of ASIC's Regulatory Guide 45 - "Mortgage Schemes – Improving Disclosure for Retail Investors" released in September 2008. Regulatory Guide 45 refers to 8 benchmarks developed by ASIC. From 30 November 2008, all PDSs for unlisted mortgage schemes are required to include the following statements in respect of each benchmark:-

- that the Fund meets the benchmark; or
- that the Fund does not meet the benchmark, and an explanation of how and why the Fund deals with the business factor or issue underlying the benchmark in another way.

A full copy of Regulatory Guide 45 can be obtained from the ASIC website: www.asic.gov.au.

The Manager will notify investors in the Fund of any material adverse information in relation to the Fund. This will include such information that relates to the ASIC benchmarks. Information relevant to the Fund that is not materially adverse and that is subject to change from time to time (including information that relates to the ASIC benchmarks) will be updated by the Manager on its website at www.LMaustralia.com, and a paper copy of any updated information will be given to any person without charge on request.

The following information relevant to the ASIC benchmarks is available from the Manager's website at www.LMaustralia.com/downloads/FMIF_portfolio_update.pdf. in the document titled LM First Mortgage Income Fund - Portfolio Update, or a copy can be obtained free of charge by telephoning freecall 1800 062 919 (Australia only) or +617 5584 4500:-

information on the nature of the Fund's investment portfolio, including details of loans and whether the Fund invests in other unlisted mortgage schemes and the conditions of such investment.

Set out below are the 8 ASIC benchmarks and a summary of how the Fund meets or does not meet the benchmarks. We encourage you to discuss the ASIC benchmarks with your financial adviser.

BENCHMARK	DOES LM MEET BENCHMARK	EXPLANATION
Liquidity (which for the purposes of this benchmark means the proportion of cash or cash equivalents in the Fund's assets)	Yes	The Manager has cash flow estimates for the Fund for the next 3 months and as the Fund has fixed investment terms of 12, 6, 3 and 1 months, the Fund will have sufficient cash or cash equivalents (not including undrawn amounts under lending facilities) to meet projected cash needs over the next 3 months. Refer to page 4 of this First SPDS under the heading "Liquidity Policy" for further details, including the Manager's policy on balancing the maturity of the Fund's assets with the maturity of the Fund's liabilities.
Scheme Borrowing	Yes	Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. At the date of this First SPDS the amount owing to the CBA was \$150 million. The facility term is the subject of an annual review and the Manager is currently renegotiating the credit facility with CBA and expects these negotiations to be finalised by 31 December 2008. The Manager expects that negotiations with CBA will result in a continued line of credit facility for a total of \$150 million for a further 12 month term and will be subject to an annual review. The finance facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility will be repaid via investment inflows and inflows received from principal repayments from borrowers.
Portfolio Diversification	Yes	The Manager provides details in relation to number of loans and details of the mortgage portfolio diversification on the Portfolio Update and these details comply with the ASIC benchmark requirements. The Portfolio Update will be available from the Manager's website at www. LMaustralia.com/downloads/FMIF_portfolio_update.pdf in the document titled "LM First Mortgage Income Fund — Portfolio Update". The Manager's lending policies and procedures for the Fund provide further details in relation to maximum loan amount for any one borrower; the method of assessing borrowers' capacity to service loans; the Manager's approach to taking security; revaluing security properties on rollover and whether the security must be income producing. See the section headed "Lending Policies and Procedures of the Fund" on page 4 of this First SPDs. The Manager does not currently invest in other unlisted mortgage schemes, but has the power to do so in the Fund constitution. The Manager's policy on investing in such schemes is to ascertain whether such an investment is desirable for the Fund in light of the circumstances at that time. The Manager will not necessarily require such a scheme to satisfy the ASIC benchmarks before the Manager invests in the scheme.

BENCHMARK	DOES LM MEET BENCHMARK	EXPLANATION
Related Party Transactions	Yes	The Fund may lend to related parties, but such loans are subject to review by the Board and car only be approved on commercial arms-length terms following approval by the Gredit Committee The Board's approval process is monitored by the Manager's Risk Manager and Business Standards and Compliance Manager. The Fund may also invest in other managed investmen schemes which are operated by the Manager. All Fund investments follow the same stringent due diligence processes which are monitored by the Chief Financial Officer. For further details refe to the paragraph under the heading "Related Parties" on page 7 of this First SPDS. Also refer to the paragraph under the heading "Conflicts of Interest Management" on page 34 of the PDS for information in relation to how the Manager deals with conflicts of interest.
Valuation Policy	No	The Manager's valuation policies set out how real property assets over which the Fund has security will be valued (that is, on an "as is" basis, and for development loans, also on an "as it complete" basis) and how often valuations are obtained. The ASIC benchmark also requires that no one valuer conducts more than 1/3 of the valuation work for the Fund. The Fund complies with this requirement. Valuers selected to perform relevant valuations on the security property are chosen based on independence, specialist industry expertise and geographic location. The ASIC benchmark requires the disclosure of information about the valuation of a particular property for an unlisted mortgage scheme where a loan secured against the property accounts for 5% or more of the total value of the scheme's loan book. The Manager does not provide this information due to privacy reasons, the commercial sensitivity of valuation information and because the assets within the loan book change regularly. Further details in relation to the Manager's valuation policies are outlined on page 5 of this First SPDS under the paragraphs headed "Valuation Policies".
ending Principles	No	It is the Manager's current policy to generally not exceed a loan to valuation ratio of 66.67% on construction and development loans and 75% on commercial loans (which ratios do both comply with the ASIC benchmark of 70% on property development - on the basis of the latest 'as if complete' valuation and in all other cases 80% on the basis of the latest market valuation). However, it is the Manager's current practice to exceed those ratios whenever necessary in the process of working through a repayment solution. The Fund's constitution allows the Manager to lend funds provided that all mortgages are secured over property and the amount which may be advanced to a borrower does not exceed an LVR of 75% of the value of the security property on initial settlement. After a loan has settled and where the Manager considers it is in the best interests of the members of the Fund, the Manager may approve an LVR not to exceed 85% of the value of the security property. The LVR of a loan that is in default may exceed 85%. Where the loan is a development loan, funds are advanced progressively in stages through the development on a "Cost to Complete" basis and the Manager engages an external consultant Quantity Surveyor for each development and receives periodic reports on the progress of the development including certification of construction claims based on work completed. Further details in relation to the Manager's lending Policies and Procedures are outlined on page 4 of this First SPDS under the heading "Lending Policies and Procedures for the Fund".
istribution Practices	Yes	Distributions are sourced from income earned from the assets of the Fund. The interest distribution rates are variable depending on the income earned, expenses paid and other matters relevant to the Fund. If the income earned is not sufficient to pay all expenses and interest distributions the returns to investors will be lower. The lower return will be determined based on the amount available to pay interest distributions. Please refer to the Manager's website at www.LMaustralia. com for details of the most recent interest distribution rates. Past performance is not an indicator of future performance.
lithdrawal rrangements	Yes	Details in relation to how and when investors can withdraw from the Fund are set out on page 17 of the PDS headed "How to Withdraw" and updated with information in relation to payment of withdrawals on page 6 of this First SPDS. As noted in that section of the PDS, in certain circumstances the Manager may delay withdrawals from the Fund by up to 365 days or suspend withdrawals for such period as it determines in order to protect all investments.
		A delay in meeting an investor's withdrawal request is possible where there are a significant number of withdrawal requests received at the same time, which absorb the cash reserves of the Fund and if assets of the Fund are not sufficiently liquid. The Manager has a liquidity policy that is monitored by the Board to adequately manage payment of withdrawals within the time period specified.
		Investors should also note the automatic rollover provisions which apply to their investments, and the time periods for notice to be given to withdraw – see the heading "Fixed Term Investment Withdrawal Notice" on page 6 of the PDS and the heading "Automatic Reinvestment Default

Position" on page 9 of the PDS.

heading "Unit Pricing" on page 13 of the PDS for further details.

Withdrawal Notice" on page 6 of the PDS and the heading "Automatic Reinvestment Default

The amount payable to investors on withdrawal will be the issue price of their units at that time. This amount is subject to change depending on the net value of the assets of the Fund. See the

Assets of the Fund

Updated information in relation to assets of the Fund shown on page 12 of the PDS, including details in relation to number of loans, details of the mortgage portfolio diversification and arrears, is available from the Manager's website at www.LMaustralia.com/downloads/FMIF_portfolio_update.pdf. in the document titled LM First Mortgage Income Fund - Portfolio Update, or a copy can be obtained free of charge by telephoning the Manager's regional offices or by telephoning the Manager's head office on freecall 1800 062 919 (Australia only) or +617 5584 4500.

Liquidity Policy

The Manager monitors and balances the Fund's portfolio of assets between cash and Australian registered first mortgage securities as part of the Fund's liquidity management.

The liquidity policy of the Fund describes the methodology the Manager applies to ensure that the maturity of the assets and liabilities of the Fund do not negatively impact on the Fund. The Manager does this by continually monitoring and managing the four variables that impact on liquidity which are: investor inflows; investor redemptions; loan draws and loan repayments.

Since its inception in 1999, the Fund has settled approximately \$4 billion of first mortgages within the commercial, industrial, retail, residential, aged care and construction sectors of Australia's property market (past performance is not an indicator of future performance). The Manager's Commercial Lending Team is focused on growing its national mortgage broker and direct borrower network, with the intention of ensuring a continued supply of loans for the portfolio.

As required by the ASIC benchmark on liquidity, in estimating cash flows, the Manager can take into account a reasonable estimate of investor inflows and outflows based on previous experience. Withdrawals are considered with reference to the period within which investors would reasonably expect withdrawal requests to be processed, rather than the maximum period within which the Manager is able to process withdrawal requests. As noted under the heading "Withdrawals" on page 6 of this First SPDS, investors may expect timeframes of up to 365 days for withdrawals if the current market conditions remain.

Lending Policies and Procedures of the Fund

The information contained in the PDS on page 10 under the heading "Lending Policies and Procedures of the LM First Mortgage Income Fund", page 32 under the heading "Lending Criteria of the Fund", page 33 under the headings "Development Loans", "Credit Committee", "Valuations Policy", "Development Valuations", "As is' Valuation" and "On Completion' Valuation", is deleted and replaced with the following.

Credit Committee

The Credit Committee is integral to the compliance and risk management processes utilised by the Manager with respect to the selection of registered first mortgage assets for the Fund. The Credit Committee is an internal review committee for all mortgage investments and is independent from all other departments. The Credit Committee calls for collaboration of a broad base of expertise from the property, finance, legal and accounting sectors when evaluating mortgage assets for the Fund. The formal structure and collaborative decision making process provided by the Credit Committee ensures an informed assessment and objective decision is made when selecting the first mortgage assets of the Fund.

New mortgage investment proposals are put forward by the commercial lending department for consideration with a written summary. The Credit Committee is responsible for setting the primary terms and conditions upon which subsequent approval will be based.

When mortgage investment proposals are completed in accordance with the Manager's credit standards they are required to be finally approved by the Credit Committee.

Lending Criteria of the Fund

- The Manager has determined and documented lending policies for the approval and management of mortgages. Risk management is a priority, with mortgages diversified over a number of levels including geographic location, sector, loan size, interest rate and maturity profile.
- One of the tools the Manager employs to enhance income into the Fund is to balance the assets of the mortgage portfolio between commercial loans and selective development loans.
- The type of real estate offered for security must be acceptable to the Manager. Typical mortgage securities will include commercial, industrial and residential real estate (including development loans across these sectors) secured by a registered first mortgage. A first mortgage must be registered on the primary security property.
- The value of the security property must be established in accordance with the valuations policy of the Manager.
- The ability of the borrower to service the facility must be established to the satisfaction of the Manager.
- To the extent that they may affect the value or performance of an underlying investment the Manager may take into account labour standards, or environmental, social or ethical considerations when making, retaining or realising an investment in the Fund. The Manager has no predetermined view about how far such matters will be taken into account, and the Manager will make a determination on such issues on a case by case basis.

Lending Policies and Procedures

The Manager will be selective in its choice of mortgages and will adhere to prudent lending parameters. The Fund will follow strict lending policies and procedures as detailed below:-

- assessment of the borrower the Manager endeavours to meet every borrower to assess character and business acumen;
- the maximum loan amount for any one borrower generally does not exceed 10% of the scheme assets;
- all mortgages are subject to the Manager's rigorous due diligence process including approval by the Manager's Credit Committee;
- the due diligence process includes assessment of the financial capacity of the borrower and any guarantors. The assessment is carried out by review and substantiation of assets, liabilities and income by reference to information provided by the borrower and independent searches and checks;

- a first mortgage is always registered on property held as the primary security;
- commercial loans are loans secured by income producing property. Non-commercial loans (not secured by income producing property) include construction/development loans and pre-development land. The capacity to service commercial loans is assessed primarily by reference to income produced from the security property, however income from all sources is also considered. The capacity to service construction loans is primarily dependent on the viability of the project, the project cash flow (including interest commitments) and all factors relevant to the project including valuation of the completed product, product demand, pre-sales contracts, marketing strategies, certified project costings, credentials of the borrower, builder and key sub-contractors;
- the Manager has every security property valued by one of the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and adhering to the Manager's valuation policies. Further details in relation to the Manager's valuation policies are outlined below under the heading "Valuation Policies";
- the Manager has a policy of diversifying mortgage securities geographically and by property type;
- the Manager has a policy of generally not exceeding the following loan to valuation ratios:-
 - € 66.67% for construction and development loans; and
 - € 75% for commercial loans;

The Credit Committee will consider the appropriate loan to valuation ratio based on all the factors surrounding the loan;

- the constitution of the Fund allows the Manager to lend funds provided that all mortgages are secured over property and the amount which may be advanced to a borrower does not exceed an LVR of 75% of the value of the security property on initial settlement. After a loan has settled and where the Manager considers it is in the best interests of the members of the Fund, the Manager may approve an LVR not to exceed 85% of the value of the security property. The LVR of a loan that is in default may exceed 85%. This could occur for example, where interest is being capitalised while the security property is being marketed and sold, or where the Manager determines that expenditure should be incurred to improve the security property prior to sale (the Manager considers a loan to be in default when interest payments have not been received in breach of the loan agreement, or the loan term has expired without repayment of principal);
- the following additional requirements are imposed in the case of development loans:
 - for development/construction loans the initial drawdown for the facility is arrived at after considering both the approved loan to valuation ratio on the "as is" valuation and the "cost to complete" formula. The initial drawdown must meet the loan to valuation ratio required and also allow sufficient funds to be available in the facility to complete the development. The project feasibility must reflect the "cost to complete" formula throughout the life of the project. The concept of a "cost to complete" formula is that the lender always retains sufficient funds within the loan facility to complete the development based on its assessment of the actual cost to complete the project. The Manager engages an external consultant Quantity Surveyor for each project and receives periodic reports on the progress of the project including certification of construction claims based on work completed;
 - additional development loan procedures are required throughout the development stages of the loan to ensure the development is adequately monitored;
 - where applicable a tripartite agreement is made between the Manager, the borrower and the builder. This enables the Manager, in the event of default by the borrower, to deal directly with the builder.

Valuation Policies

All real property assets of the Fund are required to be valued prior to settlement of each transaction. Valuations may only be carried out by the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and must adhere to the Manager's valuation guidelines. The Manager has determined and documented valuation review procedures for guidance on each valuation.

Members of the valuation panel are appointed and removed in accordance with the Manager's valuation panel appointment guidelines. The Manager is responsible for approving the appointment or removal of a panel valuer.

The Manager, in accordance with its valuations review guidelines is responsible for the review of all valuations. Unresolved issues arising from a review must be referred to an executive director for discussion and determination.

As an internal checking mechanism, an independent property report is obtained (where appropriate) from two real estate agents or an alternate valuers report whose normal trade area encompasses the property being valued.

Valuers selected by the Manager to perform relevant valuations on the security property are chosen based on independence, specialist industry expertise and geographic location.

The Manager only uses valuers who, where possible, are registered under one of the state/territory valuer registration regimes and who include a statement in their valuation reports on whether the valuation complies with all relevant industry standards and codes.

The Manager does not accept valuations performed on the instruction of borrowers. The Manager requires that valuations be provided on the Manager's instructions, or that valuers confirm that their valuations adhere to the Manager's requirements.

The valuer must have appropriate professional indemnity insurance.

The valuer must certify that they are independent of both the borrower and security property.

At initial settlement, the valuation relied on must not be dated more than 3 months prior to settlement,

An updated valuation will generally be required where a loan term is extended or a loan is otherwise varied. An updated valuation will also generally be required for commercial loans at 24 month intervals and for construction loans at 12 month intervals. The requirement for an updated valuation may be waived where the Manager considers that an updated valuation would serve no useful purpose (e.g. where it is demonstrable that property values have increased or not changed in the locality of the property, where a property under construction is significantly presold, where a commercial property has long term leases in place, where a sale or refinance is imminent or where the loan to valuation ratio of the property is low).

Development Valuations

Separate valuations (may be within the one valuation report) are required in relation to "as is" and "on completion" valuations.

Appropriate instructions must be given to the valuer having regard to the type of valuation required. In particular the instructions indicate the type of valuation required eg. "as is" or "on completion".

"As is" Valuation

The "as is" valuation is the market valuation of the property at the time of the initial drawdown. A "feasibility analysis" is undertaken including demolition, subdivision, construction, and other development costs, allowances for sales and marketing expenses, interest and an allowance for profit and risk to arrive at a base value for the land. Any such analysis is based on the premise that the development approval has or will be obtained prior to settlement of the loan. Alternatively, the valuation must contain an adjustment for any uncertainty attaching to the development approval process. The requirement for a feasibility analysis may be satisfied, if appropriate, using alternate techniques such as discounted cash flows. Additionally a cross check valuation method is employed evaluating comparable sales evidence. The loan to valuation ratio in this case must fall within the Manager's lending criteria.

"On Completion" Valuation

The "on completion" value is the market value of the property at the completion of development. The valuation methodology required is a "gross realisation" valuation based on comparable sales and/or lease evidence for the individual components e.g. houses, units, allotments etc.

The Manager will reasonably assess the appropriateness of the feasibility analysis within the valuer's report by comparison with cost estimates provided by a competent external quantity surveyor selected from the Manager's panel.

The "on completion" value is the valuation figure used in the cost to complete calculations during the development phase. The "on completion" value may be revised during the term of development to reflect changes as approved by the Manager.

Withdrawals

From time to time dependent on market cycles, the Manager may pay withdrawals over longer timeframes than usual in a normal market environment. As currently stated in the PDS, in certain circumstances withdrawal payments may be extended to 365 days or the Manager may suspend withdrawals. This protective management mechanism can be utilised to manage liquidity, to protect Fund assets and stability and investor distributions.

Due to the current turmoil and unpredictability of the market, the Manager is exercising caution with the Fund's cashflow management and utilising longer timeframes for redemptions. The Fund is currently continuing to pay redemptions, with income being earned up to the date of payment, and non-Australian dollar investments continue to hedge the currency exposure of these investments. However, longer timeframes of up to 365 days can occur should the market dictate. The Manager may also suspend withdrawals for such periods as it determines.

In light of the above matters, the following changes are made to the PDS:

- On page 17 of the PDS titled "How to Withdraw", the normal market environment timeframes for payment of withdrawals of generally within 30 days after maturity for Australian dollar investments and generally within 5 business days after maturity date no longer occur at this time, and references to those time periods under the heading "Withdrawal Notice Period" are deleted from the PDS.
- In footnotes 8, 9, 11, 13, 16, 17 and 18 on pages 5, 6, 7, 8, 9, 10 and 12 respectively of the PDS, the words "While the Manager considers any delays unlikely" are deleted.
- On pages 5, 6, 7, 9 and 31 of the PDS, the references to "The Flexi Account option generally allows investors 30 day access to their funds" and "Payment of the withdrawal will generally occur within 30 days from receipt of the written notice" and "Payment of the withdrawal will generally be made within 30 days after the maturity date" and "Payment of the withdrawal will generally be made within 5 business days after the maturity date" and the paragraph beginning "Historically, the Fund has successfully met all withdrawal requests on time and in full" are deleted.

The Manager is managing the challenges of the current external factors to ensure the ongoing success of the Fund in terms of both income and stability.

investment Risks

Currency Risk

Non-Australian dollar investors who elect to have their distributions electronically credited to the investor's nominated financial institution on a monthly basis should note there is a possible additional currency risk which relates to the unhedged distribution. These investors should take into account the paragraph below in addition to the "Currency Risk" paragraph on page 26 of the PDS.

Investors with non-Australian dollar investments who have elected to have their distributions paid monthly should note the distribution is not hedged as the Fund pays the monthly distribution directly from the earnings of the Fund in Australian dollars. The distribution does not form part of the FFEC as it does for a non-Australian dollar investment where the interest is paid at maturity and as such the monthly unhedged distribution is subject to currency risk.

Borrowing Risk

As referred to in this First SPDS there have been changes made in relation to the Fund's borrowing and as such the Borrowing Risk on page 27 of the PDS is replaced with the following paragraph.

Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. As at 28 November 2008 the amount owing to the CBA was \$150 million. As at 28 November 2008 the interest rate of the facility is variable and is priced between 0.50% to 1.10% above the respective BBSY bid rate. The facility term is the subject of an annual review. The Manager is currently renegotiating the credit facility with CBA and expects these negotiations to be finalised by 31 December 2008. The Manager expects that negotiations with CBA will result in a continued line of credit facility for a total of \$150 million for a further 12 month term and will be subject to an annual review.

The finance facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility will be repaid via investment inflows and inflows received from principal repayments from borrowers. This facility or a similar facility may be varied from time to time in order to manage the Fund. Insufficient income generated by the Fund to service the CBA debt, increases in the bank interest rate or an unforeseen refusal of the financier to extend the term of any facility could cause the Fund to default on its loan.

The Directors

By way of update to information about the Directors on page 29 of the PDS, Simon Tickner has been appointed as an executive director and John Dillon and Val Llewellyn are no longer non-executive directors. Information in relation to Simon's background and position with the Manager is outlined in the paragraph below.

Simon Tickner - Executive Director, Head of Lending

In 2001, Simon immigrated to Australia with his family after a 20 year career in trading and broking financial derivatives in London's money markets. Having established LM's Sydney office that year, Simon has since overseen its growth whilst managing LM's business development in the southern states of Australia. As Head of Lending, Simon travels throughout Australia to source and assess new lending opportunities for LM. As Executive Director, Simon's extensive 'on the ground' knowledge of Australia's many property markets provides valuable insight to LM's board, and statistical knowledge to LM's Property Research and Analysis Committee. Simon is a member of the Board of Directors, Credit Committee, Funds Management Committee and Property Research and Analysis Committee.

Borrowings of the Fund

The following paragraph replaces the information contained on page 32 of the PDS under the heading "Borrowings of the Fund".

Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. As at 28 November 2008 the amount owing to the CBA was \$150 million. As at 28 November 2008 the interest rate of the facility is variable and is priced between 0.50% to 1.10% above the respective BBSY bid rate. The facility term is the subject of an annual review. The Manager is currently renegotiating the credit facility with CBA and expects these negotiations to be finalised by 31 December 2008. The Manager expects that negotiations with CBA will result in a continued line of credit facility for \$150 million for a further 12 month term. The finance facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility will be repaid via investment inflows and inflows received from principal repayments from borrowers. The Fund's credit facility may be varied from time to time in order to manage the Fund.

Complaints Procedure

The external industry complaints body approved by ASIC and of which the Manager is a member has changed from the Financial Industry Complaints Service ("FICS") to the Financial Ombudsman Service Limited ("FOS"). The paragraph below replaces the information under the heading "Complaints Procedure" on page 34 of the PDS.

If an investor has a complaint they should generally first contact their adviser. If the adviser is unavailable, unwilling, or unable to assist, or if the investor wishes to directly contact the Manager, and the complaint relates to the Fund or the Manager, then the investor should contact the Client Relations Department at the office of the Manager on free call 1800 062 919 (Australia only) or +617 5584 4500. Complaints may be made in writing or by telephone. The Manager will respond within 30 days of receiving the complaint. If a complaint cannot be resolved by the Manager it should be referred to the Financial Ombudsman Service Limited ("FOS"), an external industry complaints body which has been approved by ASIC and of which the Manager is a member.

Financial Ombudsman Service Limited GPO Box 3

MELBOURNE VIC 3001 Telephone: 1300 78 08 08 Facsimile: (03) 9613 6399 email: info@fos.org.au website: www.fos.org.au

Related Parties

The information contained on page 34 of the PDS under the heading "Related Parties" is replaced with the following statements:-

Peter Drake, a director of the Manager is the beneficial owner of LM Administration Pty Ltd, which has been engaged by LM Investment Management Ltd to provide administration services at a commercial arms-length fee. In addition to this LM Administration Pty Ltd provides administration and funds management services to the Fund and is paid a management fee direct from the Fund.

John O'Sullivan, a non-executive director of the Manager is the beneficial owner of O'Sullivan Capital Management Ltd. O'Sullivan Capital Management Ltd has been engaged by LM investment Management Ltd to provide marketing services in New Zealand at a commercial armslength fee. This fee is paid by the Fund.

The Fund may lend to related parties provided the loans are approved by the Credit Committee, are on commercial arms-length terms, and are subject to review by the Board.

The Board of the Manager is responsible for reviewing and approving the structure and probity of commercial dealings between the Manager and any related parties. Fees issued to the account of the Fund by related parties, which are recoverable from the Fund must be on commercial arms-length terms and are subject to review by the Board.

The Fund is owed \$33,513,345 in relation to assignment of 3 first registered mortgages from the Fund to the LM Managed Performance Fund (a related investment fund). This debt is secured by a fixed and floating charge over the assets of the LM Managed Performance Fund. The current interest rate payable by the LM Managed Performance Fund on this debt is 10%pa. This loan equates to 5.51% of the total loan portfolio.

The LM Managed Performance Fund has guaranteed part of a debt due by a borrower to the Fund in the amount of \$9,600,000, in exchange for the borrower making certain funds available to an associate of the LM Managed Performance Fund. The current interest rate is 10.5%pa. This loan equates to 1.58% of the total loan portfolio.

The Fund has received the benefit of assignment of a debt due by the LM Managed Performance Fund in the sum of \$5,100,000. The current interest rate payable on this amount is 10%pa. It is anticipated that this debt will be repaid by 30 June 2009. This debt equates to 0.84% of the total loan portfolio.

The Fund has made 3 loans to various related parties, which total \$12,678,275. The Manager has received establishment fees of not more than 1.5% of the total loan amount. The interest rates for these loans are commercial rates and range from 10.5% - 12%pa. These loans equate to 2.08% of the total loan portfolio.

Related Party Finance

The Manager is the Responsible Entity of the LM Managed Performance Fund. From time to time the LM Managed Performance Fund advances loans by way of second mortgages to borrowers who have first mortgage advances from the Fund. At 31 October 2008 there are 8 such loans by the LM Managed Performance Fund in the total amount of \$28,556,297. In these instances the Fund enters into Priority Deeds with the borrower as part of normal loan documentation procedures. The LM Managed Performance Fund generates fees, charges and interest rates all of which are paid by the borrower.

The Directors of LM Investment Management Ltd have authorised and consented to the issue of this First SPDS.

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LM First Mortgage Income Fund ARSIN DB9 343 288

Supplementary Product Disclosure Statement 3 March 2009

This is the Supplementary Product Disclosure Statement ("Second SPDS") that supplements the Product Disclosure Statement ("PDS") and the First Supplementary Product Disclosure Statement ("First SPDS") issued on 10 April 2008 and 28 November 2008 respectively for the LM First Mortgage Income Fund ARSN 089 343 288 (the "Fund"). Investors should read this Second SPDS together with the PDS and First SPDS prior to investing in the LM First Mortgage Income Fund.

The purpose of this Second SPDS is to provide updated information in relation to the Fund and ASIC's Regulatory Guide 45 - "Mortgage Schemes - Improving Disclosure for Retail Investors".

No Applications will be Accepted from New Members

LM Investment Management Limited (the "Manager") has determined that from the date of this Second SPDS it will not accept any applications for investment in the Fund from any person who is not an existing member in the Fund. Any application for investment in the Fund received by the Manager will therefore be returned to the applicant.

The Manager will still accept applications for investment in the Fund from any person who is an existing member in the Fund, and this will include deemed applications as part of any reinvestment of distributions.

The Manager may decide to change this decision at any time, and start accepting applications from non-members.

Borrowings of the Fund

There have been changes made in relation to the Fund's borrowing and the following paragraph replaces the explanation of the Scheme Borrowing Benchmark on page 2 of the First SPDS, the second paragraph under the heading "Borrowing Risk" on page 6 of the First SPDS, and the second paragraph under the heading "Borrowings of the Fund" on page 7 of the First SPDS:-

"Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. As at 3 March 2009 the amount owing to the CBA was the fully drawn amount of \$150 million and the interest rate of the facility is variable and is priced between 4.0% to 9.5% above the respective Bank Bill Swap Bid Rate (BBSY). The facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility expires on 31 July 2009. If the facility is not repaid by 31 July 2009, the Manager will seek a further extension of the facility from the CBA to enable any balance debt to be repaid. The facility will be repaid via cashflow generated in the Fund. Repayment of the facility will take priority over most other cashflow needs of the Fund, and will take priority over most withdrawal requests from members of the Fund. The facility may be varied from time to time in order to manage the Fund. Insufficient income generated by the Fund to service the debt under the facility, increases in the bank interest rate or a refusal of the financier to extend the term of the facility could cause the Fund to default on its loan."

In light of the above matters, the third paragraph under the heading "Liquidity Risk" on page 27 of the PDS is deleted.

Liquidity Benchmark

The Fund still continues to meet the Liquidity Benchmark outlined in ASIC's Regulatory Guide 45 - "Mortgage Schemes – Improving Disclosure for Retail Investors" released in September 2008. However, in light of the recent change to the Fund's borrowing which requires repayment of the credit facility to take priority over most other cashflow needs of the Fund, and the fact that investors may expect timeframes of up to 365 days for withdrawals, the Manager has amended the explanation of the Liquidity Benchmark. The following paragraph therefore replaces the explanation of the Liquidity Benchmark on page 2 of the First SPDS:-

"The Manager has cash flow estimates for the Fund for the next 3 months. As the Fund has fixed investment terms of 12, 6, 3 and 1 months and will be paying any withdrawal requests up to 365 days after maturity, the Fund will have sufficient cash or cash equivalents (not including undrawn amounts under lending facilities) to meet projected cash needs over the next 3 months. Refer to page 4 of the First SPDS under the heading "Liquidity Policy" for further details, including the Manager's policy on balancing the maturity of the Fund's assets with the maturity of the Fund's liabilities."



Withdrawais

In the First SPDS under the heading "Withdrawals" on page 6, the second paragraph is deleted and replaced with;-

"Due to the current turmoil and unpredictability of the market, and the obligation on the Manager to repay the Fund's credit facility to the Commonwealth Bank of Australia in priority to most other cashflow needs of the Fund, the Manager is exercising caution with the Fund's cashflow management and utilising longer timeframes for withdrawals. In particular, payment of investor withdrawals is likely to take 365 days, The Manager may also suspend withdrawals for such periods as it determines".

Interest Distribution Payments

In accordance with the constitution the interest distributions are payable within 21 days after the end of the distribution period. The Manager had previously endeavoured to make such payments within a shorter period, but that is no longer the case. Consequently, the following changes are made to the PDS or First SPDS:-

- The second last paragraph under the heading "Interest Distribution Payments for the Flexi Account and Fixed Term Options" on page 6 of the PDS is deleted and replaced with the following "Interest distributions are calculated daily. Interest distributions are payable within 21 days after the end of the month. Quarterly interest distributions are payable within 21 days of the quarterly anniversary of the investment date".
- The last sentence of the first paragraph under the heading "Interest Distribution Payments for Non-Australian Investments" on page 9 of the PDS is deleted and replaced with the following "The interest distribution is paid within 21 days of maturity of the original and any subsequent investment term."
- In the First SPDS, under the heading "Monthly Distributions now Available for Non-Australian Dollar Currency Hedged Fixed Investment Terms as well as Australian Dollar Fixed Investment Terms" on page 1, the reference to "5 business days" in the third paragraph is deleted and replaced with "21 days" and the first two sentences of the second paragraph are deleted and replaced with "Such distributions will be paid within 21 days of the monthly anniversary of the day the investment begins".

Currency Hedge for Non-Australian Dollar Investment Options

Providers of the Forward Foreign Exchange Contracts ("FFECs") are chosen by the Manager. The Manager has recently changed the providers of the FFECs for the Fund. Consequently, references in the PDS to FFECs being facilitated or settled by a global investment bank (on pages 2, 5 and 8) are amended by deleting the references to "global investment bank" and replacing them with "a FFEC provider chosen by the Manager".

The Directors of LM Investment Management Ltd have authorised and consented to the issue of this Second SPDS.



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LM First Mortgage Income Fund ARSINDRO 343 288

Supplementary Product Disclosure Statement 30 October 2009

This is the Third Supplementary Product Disclosure Statement ("Third SPDS") that supplements the Product Disclosure Statement ("PDS"), the First Supplementary Product Disclosure Statement ("First SPDS") and the Second Supplementary Product Disclosure Statement ("Second SPDS") issued on 10 April 2008, 28 November 2008 and 3 March 2009 respectively for the LM First Mortgage Income Fund ARSN 089 343 288 (the "Fund"). Investors should read this Third SPDS together with the PDS, First SPDS and Second SPDS prior to investing in the LM First Mortgage Income Fund.

Purpose of this Third SPDS

To provide updated information in relation to:-

- The Fund's credit facility with the Commonwealth Bank of Australia ("CBA").
 - The Fund's borrowing has been renegotiated, with the financier granting an extension for repayment of the credit facility until 30 June 2010. The directors believe the Fund will be able to meet its remaining obligations under the repayment plan to the CBA through repayment of existing loans and/or refinancing of existing loans with alternative financing providers, the continued support from the CBA or the securing of alternate sources of finance.
 - The section below headed "Borrowings of Fund" provides the fully updated details to references on the Fund's borrowing as contained in the Second PDS;
- ► The Fund and ASIC's Regulatory Guide 45 "Mortgage Schemes Improving Disclosure for Retail Investors".
 - The Manager has updated the explanation of the Liquidity Benchmark and Withdrawals as these are affected by the priority position of the Fund's repayment to the CBA and the lack of credit liquidity available in the property sector. This Third SPDS also updates investors on how the Manager will communicate and provide ongoing access to investors for updated ASIC benchmarks and information on the Fund.

Borrowings of the Fund

The section headed "Borrowings of the Fund" on page 1 of the Second PDS is deleted and replaced as follows:-

"There have been changes made to the Fund's borrowing and the following paragraph replaces:-

- (i) the explanation of the Scheme Borrowing Benchmark on page 2 of the First SPDS;
- (ii) the second paragraph under the heading 'Borrowing Risk' on page 6 of the First SPDS; and
- the second paragraph under the heading "Borrowings of the Fund" on page 7 of the First SPDS;-

'Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. As at 30 October 2009 the amount owing to the CBA was the fully drawn amount of \$115,313,554 and the interest rate of the facility is variable and is priced at 4.5% above the Bank Bill Swap Bid Rate (BBSY). The facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility expires on 30 June 2010. If the facility is not repaid by 30 June 2010, the Manager will seek a further extension of the facility from the CBA to enable any balance debt to be repaid. The facility will be repaid via cashflow generated in the Fund. Repayment of the facility will take priority over most other cashflow needs of the Fund, and will take priority over most withdrawal requests from members of the Fund. The facility may be varied from time to time in order to manage the Fund. Insufficient income generated by the Fund to service the debt under the facility, increases in the bank interest rate or a refusal of the financier to extend the term of the facility could cause the Fund to default on its loan.'

As the line of credit is fully drawn and being repaid in priority over most other cashflow needs of the Fund, the third paragraph under the heading "Liquidity Risk" on page 27 of the PDS is deleted."



Liquidity Benchmark

In the Second SPDS on page 1 under the heading "Liquidity Benchmark" both paragraphs are deleted and replaced with the following:

"The Fund still continues to meet the Liquidity Benchmark outlined in ASIC's Regulatory Guide 45 - "Mortgage Schemes - Improving Disclosure for Retail Investors" released in September 2008. Currently, the Fund is required to repay the credit facility as a priority over most other cashflow needs of the Fund, and withdrawals are suspended except for withdrawals under hardship provisions and feeder fund payments for investor distributions and fund expenses. Therefore, the Manager has updated the explanation of the Liquidity Benchmark. The following paragraph replaces the explanation of the Liquidity Benchmark on page 2 of the First SPDS:-

'The Manager has cash flow estimates for the Fund for the next 12 months and as such meets ASIC's liquidity benchmark guideline to have cashflow estimates for the next 3 months. The Fund has fixed investment terms of 12, 6, 3 and 1 months. As most withdrawals are suspended the Fund will have sufficient cash or cash equivalents (not including undrawn amounts under lending facilities) to meet projected cash needs over the next 3 months. The Manager's cash flow estimates for the Fund for the next 12 months contain a detailed schedule of managed loan repayments to the Fund from its existing loan portfolio. Refer to page 4 of the First SPDS under the heading "Liquidity Policy" for further details.'

Withdrawals

In the Second SPDS under the heading "Withdrawals" on page 2, the second paragraph is deleted and replaced with:-

"The prevailing credit and liquidity constraints in the property and financial markets, and the Fund's obligation to repay its credit facility to the CBA in priority to most other cashflow needs of the Fund, call for caution in the management of the Fund's cashflow. In order to protect all investments, the Manager has, as it determines, suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for investor distributions and fund expenses, as the cashflow allows. A return of liquidity to the Australian property sector would positively assist with cash flow management and the repayment due to the CBA and would, over time, bring about a return to "normal" timeframes for investor redemption payments."

In light of the above matters, in the First SPDS on page 4 under the heading "Liquidity Policy" the last sentence is deleted as payment of most withdrawals is currently suspended.

Related Parties

In the "Related Parties" section on pages 7 and 8 of the First SPDS:-

(i) The following paragraph replaces the eighth paragraph:-

"On 30 June 2008, the Manager assigned to the LM First Mortgage Income Fund, the rights and benefits of a \$5,100,000 debt due to the Manager from the LM Managed Performance Fund. The date for the repayment of that debt to the LM First Mortgage Income Fund has been extended to 30 June 2010. The current interest rate payable on this amount is 10%pa and the debt equates to 0.84% of the total loan portfolio."

and

(ii) The following paragraph is added:-

"The Fund may, from time to time, sell or partially sell mortgage loans to other separate funds for which the Manager is also Responsible Entity. Any such transactions are reviewed and conducted in accordance with the Fund's Conflicts of Interest Policy. Currently there is one loan that the Fund has partly sold to the LM Australian Income Fund Currency Protected, with a current value of \$6,360 000."

Related Party Transactions

The paragraph below replaces the paragraph headed "Related Party Finance" on page 8 of the First SPDS.

"LM is the Manager of the LM Managed Performance Fund. The LM Managed Performance Fund, in its own right, has second mortgages behind loans that are first mortgages of the LM First Mortgage Income Fund. At 30 September 2009 the LM Managed Performance Fund has 9 such second mortgages in the total amount of \$48,876,841. In each instance, the LM First Mortgage Income Fund has entered into a Priority Deed to protect its own first mortgage position with the borrower as part of normal loan documentation procedures."

ASIC Benchmarks & Any Updated Information

Apart from the current financial report for the Fund, updated information in relation to the Fund that was previously provided on the Manager's website will now be provided to investors via direct communication from the Manager. Therefore, references contained:-

- (i) in the First SPDS
 - a. Page 2 under the heading "ASIC Benchmark Disclosure for Investors" paragraphs 3 and 4; and
 - b. Under the "Portfolio Diversification" benchmark the second sentence; and
- ii) in the PDS page 13 under the paragraph headed "Updated Financial and Other Information"

are updated as follows:-

The Manager will notify investors in the Fund of any material adverse information in relation to the Fund. This will include such information that relates to the ASIC benchmarks. Information relevant to the Fund that is not materially adverse and that is subject to change from time to time will also be updated by the Manager via direct communication to investors. This will include information that relates to the ASIC benchmarks such as information on the nature of the Fund's investment portfolio, including details of loans, whether the Fund invests in other unlisted mortgage schemes and the conditions of such investment. A paper copy of any updated information will be given to investors without charge on request.

LM First Mortgage Income Fund anamers

ASIC Benchmark Disclosure & Update for Investors 9 April 2010

This document is provided to give investors current information on the LM First Mortgage Income Fund's (Fund) compliance with ASIC Regulatory Guide 45. The requirements of ASIC's Regulatory Guide 45 - "Mortgage Schemes – Improving Disclosure for Retail Investors" was released in September 2008. Regulatory Guide 45 refers to 8 benchmarks developed by ASIC. All unlisted mortgage schemes are required to include statements in respect of each benchmark as to whether they comply or not.

Please ensure this document is read carefully, including any warning statements, before making any further decisions on current investments in the Fund.

Fund Closed to New Members

LM Investment Management Limited (the "Manager") determined that from 3 March 2009 it will not accept any applications for investment in the Fund from any person who is not an existing member in the Fund. Any application for investment in the Fund received by the Manager will therefore be returned to the applicant.

In order to protect the Fund from the prevailing credit and liquidity constraints in the property and financial markets, and the Fund's simultaneous obligation to repay its credit facility to the CBA the Manager closed the Fund to new investments and suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for investor distributions and Fund expenses. Feeder funds are other registered managed investment schemes that have invested directly in the LM First Mortgage Income Fund.

The Manager will still accept applications for investment in the Fund from any person who is an existing member in the Fund by way of rollover of investment term, and this will include deemed applications as part of any reinvestment of distributions. The Manager continues to offer term investments, allowing investment rollovers to existing investors, based on the ongoing achievement of the Fund's objectives, strategies, continuous disclosure as detailed in this document and any disclosure of ongoing material changes. When an investor rolls over their investment they will continue to roll for their choice of investment term until they advise the Manager otherwise. Current fixed investment terms are 48, 24, 13, 12, 6, 3 and 1 month. The interest distribution rate received is based on the term and currency of investment, 12,35 If an investor chooses to withdraw their investment at the end of their investment term, as most normal withdrawals are currently suspended, the investment will continue to earn distribution interest based on the same term as the last nominated term until cash flows permit the withdrawal to be paid. 1,23 Refer to the benchmark table on page 4 of this document for further details on withdrawals.

Strategy for the Fund over the next 6, 12 and 24 Months

Set out below is the Manager's strategy for the Fund.

The Manager has completed a detailed review of each first mortgage security in the portfolio. Over the past 12 months, the Manager has invested a considerable amount of time and resources to ensuring that all Fund assets are protected. The assets have been put into the best possible position in order to realise their full value back into the Fund.

Moving forward, the Manager will continually review the first mortgage securities within the Fund to ensure the best possible outcome for all investors in the Fund. To drive positive outcomes, critical timeframes are applied for each mortgage over the short, medium and longer terms (i.e. 6, 12 and 24 months). These timeframes and critical dates are reviewed internally by the Manager's asset and recovery team, each week.

The Manager has critically assessed the loans in the current portfolio with our best estimates for repayment timeframes given the asset types, market conditions, geographic and sector allocations and other considerations. Each asset has an individual plan targeted to achieve the best possible outcome for the Fund investors.

Six Months Strategy

- The Manager expects to be able to resolve the issue with the financier (either CBA or new) regarding new extended finance terms and the release of restrictive covenants. The Manager will continue to explore the viability of a refinance of the current facility.
- Whereas the Manager expects the current financier to offer a renewal of the current facility upon expiration, it is also currently seeking alternate financing options to provide the Fund a more favourable structure and amortisation requirements. Interest has been expressed by a number of institutional parties and negotiations are currently being progressed.
- Continue current self-down program with those assets identified for sale in order to realise cash into the Fund and reduce the finance facility (should this not be refinanced).
- Monitor and ensure that the Fund's objectives and purpose are being met at all times.
- F Continue regular reporting to investors.



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Twelve Months Strategy

- Based on conservative current levels of loan realisations, cash flow projections show that the full repayment of the CBA finance facility should be achieved by February 2011. Alternatively the Fund will have obtained refinance on more commercial terms with less restrictive covenants.
- Continue the managed sell down of identified assets in order to realise cash into the Fund.
- Announce a proposed redemption program for those investors with a redemption request lodged
- Reinvest an agreed percentage of the Fund's assets into new lending opportunities, an important step in protecting the interests of investors remaining in the Fund.
- Monitor and ensure that the Fund's objectives and purpose are being met at all times.
- Continue regular reporting to investors.

Twenty Four Months Strategy

- Continue the payment of redemptions as a managed process.
- Manage the remaining mortgage portfolio and ensure that Fund objectives and purpose are being met.
- Depending on level of remaining redemption requests, consideration will be given to re-opening the Fund once again to new investors.
- Continue regular reporting to investors.

ASIC Benchmark Disclosure for Investors

The information in the table below provides a summary of how the Fund meets or does not meet the 8 ASIC benchmarks which are required under ASIC's Regulatory Guide 45 - "Mortgage Schemes -- Improving Disclosure for Retail Investors". We encourage you to discuss the ASIC benchmarks with your financial adviser. A full copy of Regulatory Guide 45 can be obtained from the ASIC website: www.asic.gov.au.

The Manager will notify investors in the Fund of any material adverse information in relation to the Fund. This will include such information that relates to the ASIC RG 45 benchmarks. This document provides current information on the benchmarks with copies of any updated information given to investors without charge on request.

Any other information relevant to the Fund that is not materially adverse and that is subject to change from time to time will be updated by the Manager via direct communication to investors on a periodic basis. This will include information that relates to the ASIC benchmarks such as information on the nature of the Fund's portfolio investment including details of loans, whether the Fund invests in other unlisted mortgage schemes and the conditions of such investment. A paper copy of any updated information will be given to investors without charge on request.

BENCHMARK NUMBER & NAME	DOES LM MEET BENCHMARK	EXPLANATION
Benchmark 1:- Liquidity (which for the purposes of this benchmark means the proportion of cash or cash equivalents in the Fund's assets)	No	The Manager has cash flow estimates for the Fund for the next 12 months and as such meets ASIC's liquidity benchmark guideline to have cashflow estimates for the next 3 months. As most withdrawals are suspended the Fund will have sufficient cash or cash equivalents (not including undrawn amounts under lending facilities) to meet projected cash needs over the next 3 months. The Manager's cash flow estimates for the Fund for the next 12 months contain a detailed schedule of managed loan repayments to the Fund from its existing loan portfolio. The Manager constantly monitors and reviews the Fund's cash flow estimates however any delay in the actual realisation of projected cash flow will have a flow on effect to the Fund's actual cash flow payments which may mean that distribution payments may be delayed from time to time.
		The Fund has met this benchmark prior to closure of the Fund with balancing the maturity of the fund assets with the fund liabilities. As the Fund is currently closed to new investments, the Fund is reliant on income (interest payments) from existing loans and the repayment of loans to generate cash flow within the Fund. During this time it is expected that some loans will not meet the interest payment requirements on time and/or repayment requirements by the original maturity date. Therefore the liquidity benchmark is unable to be met. Refer

liquidity benchmark.

Benchmark 2:-Scheme Borrowing Yes

Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a line of credit facility with the Commonwealth Bank of Australia ("CBA"). This facility was put into place in order to allow the Manager to take advantage of competitive commercial lending opportunities, or to assist the Fund with managing liquidity. As at 31 January 2010 the amount owing to the CBA was the fully drawn amount of \$105,339,462 and the interest rate of the facility is variable and is priced at 4.5% above the Bank Bill Swap Bid Rate (BBSY). The facility is secured by a fixed and floating charge over the assets of the Fund, providing the CBA as a secured lender with first priority over the assets and income of the Fund. The rights of investors to the income and assets of the Fund are secondary to the rights of the CBA. The facility expires on 30 June 2010. If the facility is not repaid by 30 June 2010, the Manager will seek a further extension of the facility from the CBA to enable any

to page 5 of this document under the heading "Liquidity Policy" for further details of the

balance debt to be repaid. The facility will be repaid via cashflow generated in the Fund. Repayment of the facility will take priority over most other cashflow needs of the Fund, and will take priority over most withdrawal requests from members of the Fund. The current facility with the CBA requires its capital repayment ahead of normal investor redemptions. The current CBA minimum capital repayment requirements are \$5 million per month. Additionally where the minimum requirement is met, and the Fund is able to convert further than the minimum requirement to cash then the CBA also takes the first 60% of that additional converted cash. The facility may be varied from time to time in order to manage the Fund. Insufficient income generated by the Fund to service the debt under the facility, increases in the bank interest rate or a refusal of the financier to extend the term of the facility could cause the Fund to default on its loan.

Whereas the Manager expects the current financier to offer a renewal of the current facility upon expiration it is also currently seeking alternate financing options to provide the Fund a more favourable pricing structure and amortisation requirements, Interest has been expressed by a number of institutional parties and negotiations are currently being progressed.

Benchmark 3:-Portfolio Diversification

Yes

Refer to pages 8 to 10 of this document under heading "Portfolio Update as at 31 January 2010" for the Fund's current portfolio diversification.

The Manager's lending policies and procedures for the Fund provide further details in relation to maximum loan amount for any one borrower; the method of assessing borrowers' capacity to service loans; the Manager's approach to taking security; revaluing security properties on rollover and whether the security must be income producing. Currently the Fund is not actively lending to new borrowers but is maintaining, monitoring and reviewing the Funds loans to existing borrowers. See the section headed "Lending Policies and Procedures of the Fund" on pages 5 to 7 of this document.

The Manager does not currently invest in other unlisted mortgage schemes, but has the power to do so in the Fund constitution. The Manager's policy on investing in such schemes is to ascertain whether such an investment is desirable for the Fund in light of the circumstances at that time. The Manager will not necessarily require such a scheme to satisfy the ASIC benchmarks before the Manager invests in the scheme.

Benchmark 4:-Related Party Transactions

Yes

The Fund may lend to related parties, but such loans are subject to review by the Board and can only be approved on commercial arms-length terms following approval by the Credit Committee. The Board's approval process is monitored by the Manager's Risk Manager and Business Standards and Compliance Manager. The Fund may also invest in other managed investment schemes which are operated by the Manager. All Fund investments follow the same stringent due diligence processes which are monitored by the Chief Financial Officer. For further details refer to the paragraphs under the heading "Related Parties" on page 7 of this document.

The Manager has a documented Conflicts Management Policy which deals with the identification, assessment and treatment of conflicts of interest and related party transactions. The Risk Manager has responsibility for conflicts and prepares conflict records for each conflict or related party transaction identified. Board approval is required for all related party transactions.

Benchmark 5:-Valuation Policy

No

The Manager's valuation policies set out how real property assets over which the Fund has security will be valued (that is, on an "as is" basis, and for development loans, also on an "as if complete" basis) and how often valuations are obtained. The ASIC benchmark also requires that no one valuer conducts more than 1/3 of the valuation work for the Fund. The Fund complies with this requirement. Valuers selected to perform relevant valuations on the security property are chosen based on independence, specialist industry expertise and geographic location. The ASIC benchmark requires the disclosure of information about the valuation of a particular property for an unlisted mortgage scheme where a loan secured against the property accounts for 5% or more of the total value of the scheme's loan book. The Manager does not provide this information due to privacy reasons, the commercial sensitivity of valuation information and because the assets within the loan book change regularly. Further details in relation to the Manager's valuation policies are outlined on pages 6 and 7 of this document under the paragraphs headed "Valuation Policies".

Benchmark 6:-Lending Principles No

It is the Manager's current policy to generally not exceed a loan to valuation ratio of 66,67% on construction and development loans and 75% on commercial loans (which ratios do both comply with the ASIC benchmark of 70% on property development - on the basis of the latest 'as if complete' valuation and in all other cases 80% on the basis of the latest market valuation). However, it is the Manager's current practice to exceed those ratios whenever necessary in the process of working through a repayment solution. The Fund's constitution allows the Manager to lend funds provided that all mortgages are secured over property and the amount which may be advanced to a borrower does not exceed an LVR of 75% of the value of the security property on initial settlement. After a loan has settled and where the Manager considers it is in the best interests of the members of the Fund, the Manager may approve an LVR not to exceed 85% of the value of the security property. The LVR of a loan that is in default may exceed 85%. Where the loan is a development loan, funds are advanced progressively in stages through the development on a "Cost to Complete" basis and the Manager engages an external consultant Quantity Surveyor for each development and receives periodic reports on the progress of the development including certification of construction claims based on work completed. Further details in relation to the Manager's lending policies and procedures are outlined on pages 5 to 7 of this document under the heading "Lending Policies and Procedures for the Fund".

Benchmark 7:-Distribution Practices

Yes

Distributions are sourced from income earned from the assets of the Fund. Currently income earned from the assets is via interest from existing loans and from any additional or outstanding interest on repayment of any loans. The interest distribution rates are variable depending on the income earned, expenses paid and other matters relevant to the Fund. If the income earned is not sufficient to pay all expenses and interest distributions the returns to investors will be lower. The lower return will be determined based on the amount available to pay interest distributions.

Benchmark 8:-Withdrawal Arrangements Yes

From time to time dependent on market cycles, the Manager may pay withdrawals over longer timeframes than usual in a normal market environment. As currently stated in the PDS, in certain circumstances withdrawal payments may be extended to 365 days or the Manager may suspend withdrawals. This protective management mechanism can be utilised to manage liquidity, to protect Fund assets and stability and investor distributions.

The prevailing credit and liquidity constraints in the property and financial markets, and the Fund's obligation to repay its credit facility to the CBA in priority to most other cashflow needs of the Fund, call for caution in the management of the Fund's cashflow. In order to protect all investments, the Manager has suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for investor distributions and Fund expenses, as the cashflow allows. Investors may apply under ASIC hardship provision for withdrawal of their investment. ASIC hardship provisions are prescriptive and investors who wish to apply under these provisions must meet the hardship criteria outlined in ASIC's provisions, investors can contact the Manager who will provide details of ASIC's hardship withdrawal provisions. If the withdrawal is allowed under ASIC hardship withdrawal provisions payment will be subject to cashflow of the Fund.

A withdrawal notice may still be lodged. Investors must give the Manager written noticed signed by the investor's. Flexi investment investors must provide 1 business days notice, Fixed Term investments investors must provide at least 5 business days notice prior to the maturity date, and Saving Plan investors following the initial 12 month investment period must provide 1 business days notice. If an investor chooses to withdraw their investment at the end of their investment term, as most normal withdrawals are currently suspended, the investment will continue to earn interest based on the same term as the last nominated term until cash flows permit the withdrawal to be paid.

Investors should also note the automatic rollover provisions which apply to their investments, and the time periods for notice to be given to withdraw are as outlined in this section.

The amount payable to investors on withdrawal will be the issue price of their units at that time. This amount is subject to change depending on the net value of the assets of the Fund.

\$167.1 million of investments in the Fund have a withdrawal pending.

\$150.5 million of investments in the Fund's feeder funds have a withdrawal pending.

The total being \$317.6 million of investments in all funds have withdrawals pending.

Prior to the global financial crisis ("GFC"), the Fund's historical withdrawal rate averaged 1.5% of total assets on a monthly basis, including feeder fund withdrawals. Based on this pre-GFC historical withdrawal rate, if the investment environment had been normal over the past 12 months, withdrawal trends would have been expected to equate to approximately AUD\$115 million as opposed to the AUD\$317.6 million of withdrawals actually received since 3 March 2009. The increase in withdrawals is as a direct result of the extraordinary environment created by the GFC.

Liquidity Policy

The Manager monitors and balances the Fund's portfolio of assets between cash and Australian registered first mortgage securities as part of the Fund's liquidity management.

The liquidity policy of the Fund describes the methodology the Manager applies to balance the maturity of the assets and liabilities of the Fund. The Manager continually monitors and manages the variables that impact on liquidity. As the Fund is currently closed to new investments, the Fund is reliant on the repayment of loans to generate cash flow within the Fund. Meeting the running expenses of the Fund and the repayment schedule on the loan facility to the Commonwealth Bank of Australia are priorities. During this time it is expected that some loans will not meet repayment by their original maturity date.

As required by the ASIC benchmark on liquidity, in estimating cash flows, the Manager can take into account a reasonable estimate of investor inflows and outflows based on previous experience. Withdrawals are considered with reference to the period within which investors would reasonably expect withdrawal requests to be processed, rather than the maximum period within which the Manager is able to process withdrawal requests. In order to protect all investments, the Manager has suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payment for investor distributions and Fund expenses as the cashflow allows.

Lending Policies and Procedures of the Fund

Credit Committee

The Credit Committee is integral to the compliance and risk management processes utilised by the Manager with respect to the selection of registered first mortgage assets for the Fund. The Credit Committee is an internal review committee for all mortgage investments and is independent from all other departments. The Credit Committee calls for collaboration of a broad base of expertise from the property, finance, legal and accounting sectors when evaluating mortgage assets for the Fund. The formal structure and collaborative decision making process provided by the Credit Committee ensures an informed assessment and objective decision is made when selecting the first mortgage assets of the Fund.

New mortgage investment proposals are put forward by the commercial lending department for consideration with a written summary. The Credit Committee is responsible for setting the primary terms and conditions upon which subsequent approval will be based.

When mortgage investment proposals are completed in accordance with the Manager's credit standards they are required to be finally approved by the Credit Committee.

Lending Criteria of the Fund

- The Manager has determined and documented lending policies for the approval and management of mortgages. Risk management is a priority, with mortgages diversified over a number of levels including geographic location, sector, loan size, interest rate and maturity profile.
- One of the tools the Manager employs to enhance income into the Fund is to balance the assets of the mortgage portfolio between commercial loans and selective development loans.
- The type of real estate offered for security must be acceptable to the Manager. Typical mortgage securities will include commercial, industrial and residential real estate (including development loans across these sectors) secured by a registered first mortgage. A first mortgage must be registered on the primary security property.
- The value of the security property must be established in accordance with the valuations policy of the Manager.
- From the ability of the borrower to service the facility must be established to the satisfaction of the Manager,
- To the extent that they may affect the value or performance of an underlying investment the Manager may take into account labour standards, or environmental, social or ethical considerations when making, retaining or realising an investment in the Fund. The Manager has no predetermined view about how far such matters will be taken into account, and the Manager will make a determination on such issues on a case by case basis.

Lending Policies and Procedures

The Manager will be selective in its choice of mortgages and will adhere to prudent lending parameters. The Fund will follow strict lending policies and procedures as detailed below:

- assessment of the borrower the Manager endeavours to meet every borrower to assess character and business acumen;
- the maximum loan amount for any one borrower generally does not exceed 10% of the scheme assets;
- all mortgages are subject to the Manager's rigorous due diligence process including approval by the Manager's Credit Committee;
- the due diligence process includes assessment of the financial capacity of the borrower and any guarantors. The assessment is carried out by review and substantiation of assets, liabilities and income by reference to information provided by the borrower and independent searches and checks.
- a first mortgage is always registered on property held as the primary security;
- commercial loans are loans secured by income producing property. Non-commercial loans (not secured by income producing property) include construction/development loans and pre-development land. The capacity to service commercial loans is assessed primarily by reference to income produced from the security property, however income from all sources is also considered. The capacity to service construction loans is primarily dependent on the viability of the project, the project cash flow (including interest commitments) and all factors relevant to the project including valuation of the completed product, product demand, pre-sales contracts, marketing strategies, certified project costings, credentials of the borrower, builder and key sub-contractors;
- the Manager has every security property valued by one of the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and adhering to the Manager's valuation policies. Further details in relation to the Manager's valuation policies are outlined below under the heading "Valuation Policies";

- the Manager has a policy of diversifying mortgage securities geographically and by property type;
- the Manager has a policy of generally not exceeding the following loan to valuation ratios:
 - # 66.67% for construction and development loans; and
 - 4 75% for commercial loans;

The Credit Committee will consider the appropriate loan to valuation ratio based on all the factors surrounding the loan;

- the constitution of the Fund allows the Manager to lend funds provided that all mortgages are secured over property and the amount which may be advanced to a borrower does not exceed an LVR of 75% of the value of the security property on initial settlement. After a loan has settled and where the Manager considers it is in the best interests of the members of the Fund, the Manager may approve an LVR not to exceed 85% of the value of the security property. The LVR of a loan that is in default may exceed 85%. This could occur for example, where interest is being capitalised while the security property is being marketed and sold, or where the Manager determines that expenditure should be incurred to improve the security property prior to sale (the Manager considers a loan to be in default when interest payments have not been received in breach of the loan agreement, or the loan term has expired without repayment of principal); the following additional requirements are imposed in the case of development loans:
 - for development/construction loans the initial drawdown for the facility is arrived at after considering both the approved loan to valuation ratio on the "as is" valuation and the "cost to complete" formula. The initial drawdown must meet the loan to valuation ratio required and also allow sufficient funds to be available in the facility to complete the development. The project feasibility must reflect the "cost to complete" formula throughout the life of the project. The concept of a "cost to complete" formula is that the lender always retains sufficient funds within the loan facility to complete the development based on its assessment of the actual cost to complete the project. The Manager engages an external consultant Quantity Surveyor for each project and receives periodic reports on the progress of the project including certification of construction claims based on work completed;
 - additional development loan procedures are required throughout the development stages of the loan to ensure the development is adequately monitored;
 - where applicable a tripartite agreement is made between the Manager, the borrower and the builder. This enables the Manager, in the event of default by the borrower, to deal directly with the builder.

Valuation Policies

All real property assets of the Fund are required to be valued prior to settlement of each transaction. Valuations may only be carried out by the Manager's panel valuers or by a valuer meeting the Manager's standards for inclusion on its panel and must adhere to the Manager's valuation guidelines. The Manager has determined and documented valuation review procedures for guidance on each valuation.

Members of the valuation panel are appointed and removed in accordance with the Manager's valuation panel appointment guidelines. The Manager is responsible for approving the appointment or removal of a panel valuer.

The Manager, in accordance with its valuations review guidelines is responsible for the review of all valuations. Unresolved issues arising from a review must be referred to an executive director for discussion and determination,

As an internal checking mechanism, an independent property report is obtained (where appropriate) from two real estate agents or an afternate valuers report whose normal trade area encompasses the property being valued.

Valuers selected by the Manager to perform relevant valuations on the security property are chosen based on independence, specialist industry expertise and geographic location.

The Manager only uses valuers who, where possible, are registered under one of the state/territory valuer registration regimes and who include a statement in their valuation reports on whether the valuation complies with all relevant industry standards and codes.

The Manager does not accept valuations performed on the instruction of borrowers. The Manager requires that valuations be provided on the Manager's instructions, or that valuers confirm that their valuations adhere to the Manager's requirements.

The valuer must have appropriate professional indemnity insurance.

The valuer must certify that they are independent of both the borrower and security property.

At initial settlement, the valuation relied on must not be dated more than 3 months prior to settlement.

An updated valuation will generally be required where a loan term is extended or a loan is otherwise varied. An updated valuation will also generally be required for commercial loans at 24 month intervals and for construction loans at 12 month intervals. The requirement for an updated valuation may be waived where the Manager considers that an updated valuation would serve no useful purpose (e.g. where it is demonstrable that property values have increased or not changed in the locality of the property, where a property under construction is significantly presold, where a commercial property has long term leases in place, where a sale or refinance is imminent or where the loan to valuation ratio of the property is low).

Development Valuations

Separate valuations (may be within the one valuation report) are required in relation to "as is" and "on completion" valuations.

Appropriate instructions must be given to the valuer having regard to the type of valuation required. In particular the instructions indicate the type of valuation required eg. "as is" or "on completion".

"As is" Valuation

The "as is" valuation is the market valuation of the property at the time of the initial drawdown. A "feasibility analysis" is undertaken including demolition, subdivision, construction, and other development costs, allowances for sales and marketing expenses, interest and an allowance for profit and risk to arrive at a base value for the land. Any such analysis is based on the premise that the development approval has or will be obtained prior to settlement of the loan. Alternatively, the valuation must contain an adjustment for any uncertainty attaching to the development

approval process. The requirement for a feasibility analysis may be satisfied, if appropriate, using alternate techniques such as discounted cash flows. Additionally a cross check valuation method is employed evaluating comparable sales evidence. The loan to valuation ratio in this case must fall within the Manager's lending criteria.

"On Completion" Valuation

The "on completion" value is the market value of the property at the completion of development. The valuation methodology required is a "gross realisation" valuation based on comparable sales and/or lease evidence for the individual components e.g. houses, units, allotments etc.

The Manager will reasonably assess the appropriateness of the feasibility analysis within the valuer's report by comparison with cost estimates provided by a competent external Quantity Surveyor selected from the Manager's panel.

The "on completion" value is the valuation figure used in the cost to complete calculations during the development phase. The "on completion" value may be revised during the term of development to reflect changes as approved by the Manager.

Related Parties

Broadly, the definition of "related party" includes a controlling entity, company or person of LM Investment Management Ltd ("LM"), a public company. This filters through all funds managed by LM, and any directors. This Fund has no loans to any LM directors. Investor disclosure guidelines are designed to ensure that investors are aware of any interaction with transactions between different funds or where a director or other related party, including another fund, derives a financial benefit.

As well as providing best practice disclosure of all related party transactions, the guidelines further ensure the Manager is accountable in terms of the management and monitoring of any related party transactions. It is especially important that where there is a related party somehow involved, that the transaction is evaluated from a due diligence and credit assessment process, as robustly as if it were not a related party transaction. Ongoing robust monitoring of these transactions must also be demonstrated.

The Fund may lend to related parties provided the loans are approved by the Credit Committee on commercial, arms-length terms. They must then be approved at full Board level, and are subject to review by the Board.

The Board is responsible for reviewing and approving the structure and probity of commercial dealings between the manager and any related parties and for ensuring any such transactions are approved only and after taking into consideration the Manager's Conflicts of Interests Policy. Fees issued to the account of the Fund by related parties, which are recoverable from the Fund, must be on commercial arms-length terms and are subject to review by the Board.

Following are the related party transactions within this Fund:-

Since inception of LM Investment Management Ltd, LM Administration Pty Ltd has been engaged by LM Investment Management Ltd to provide administration services at a commercial fee. LM Administration Pty Ltd also provides administration and funds management services to the Fund and directly receives a management fee from the Fund for that service. Peter Drake, a director of LM, is the beneficial owner of LM Administration Pty Ltd.

John O'Sullivan, a non-executive director of the Manager is the beneficial owner of O'Sullivan Capital Management Ltd. O'Sullivan Capital Management Ltd has been engaged by LM Investment Management Ltd to provide marketing services in New Zealand at a commercial arms-length fee. This fee is paid by the Fund.

The LM Managed Performance Fund, a related investment fund, has a debt owing to the Ftind of \$29,376,053 at a rate of 7%pa_for the assignment of two (2) first registered mortgages. The debt is secured by a fixed and floating charge over the assets of the 4M Managed Performance Fund. This loan constitutes 5.06% of the total loan portfolio.

The LM Managed Performance Fund, a related investment fund, has guaranteed \$9,600,000 of a loan due by a Borrower to this Furfd, in exchange for that Borrower making those funds available to the LM Managed Performance Fund and an associate of that fund. The interest rate on that loan is 7%pa and it equates to 1.65% of this fund's total loan portfolio.

On 30 June 2008, the Manager assigned to the LM First Mortgage Income Fund, the rights and benefits of a \$5,100,000 debt due to the Manager from the LM Managed Performance Fund. The date for the repayment of that debt to the LM First Mortgage Income Fund has been extended to 30 June 2010. The current interest rate payable on this amount is 10%pa and the debt equates to 0.88% of the total loan portfolio.

The Fund has made 3 loans to various related parties, which total \$19,332,108. The Manager has received establishment fees of not more than 1.5% of the total loan amount. The interest rates for these loans are commercial rates and range from 10.5% - 11%pa. These loans equate to 3,33% of the total loan portfolio.

The Fund may sell the whole or part of a loan to other funds managed by LM as the Responsible Entity. The Fund has partially sold \$6,110,600 of one of its loans to the LM Australian Income Fund --Currency Protected.

Related Party Finance

LM is the Manager of the LM Managed Performance Fund. The LM Managed Performance Fund, in its own right, has second mortgages behind loans that are first mortgages of the LM First Mortgage income Fund. At 31 January 2010 the LM Managed Performance Fund holds 8 such second mortgages in the total amount of \$42,198,373. In each instance the LM First Mortgage Income Fund has entered into a Priority Deed to protect its own first mortgage position with the borrower as part of normal loan documentation procedures.

Assets of the LM First Mortgage Income Fund

- A diversified portfolio of Australian registered first mortgages over commercial, residential, industrial, retail and vacant land; and
- Interest bearing cash investments.

LM First Mortgage Income Fund Asset Allocation



- ₩ Registered First Mortgage Securities 98.67%
- Cash & Cash Equivalents 1.33%

Asset Allocation Guidelines	No. of Loans	Value (\$)	Actual (%)
Registered First Mortgage Securities	42	580,715,275	98.67
Cash & Cash Equivalents	N/A	7,815,970	1.33

LM First Mortgage Income Fund Sector Diversification



- Commercial 19.89%
- Residential 59.23%
- Industrial 14.23%
- Pending Development Land 6.65%
- 15 Retail 0.00%

Sector Guidelines	No. of Loans	Value (\$)	Actual (%)
Commercial	11	115,515,062	19.89
Residential	22	343,960,681	59.23
Industrial	3	82,645,028	14.23
Pending Development Land	6	38,594,504	6.65
Retail	0	0	0.00

LM First Mortgage Income Fund Construction, Development and Other Mortgage Securities



- ₩ Other Mortgage Securities 81.02%
- ${\ensuremath{\mathbb{H}}}$ Construction & Development Mortgage Securities 18,98%

Construction, Development and Other Guidelines	No. of Loans	Value (\$)	Actual (%)
Construction and Development Mortgage Securities	8	110,209.629	18.98
Other Mortgage Securities*	34	470,505,646	81.02

^{*} Other Mortgage Securities includes pending development land, completed developments and commercial loans.

LM First Mortgage Income Fund Geographic Diversification



- Queensland 53.53%
- 緬 Western Australia 7.03%
- Northern Territory 0.00%
- Tasmania 0.60%
- ☐ South Australia 0.00%

Sector Guidelines	No. of Loans	Value (\$)
New South Wales	15	184,194,571
Victoria	4	33,671,467
Queensland	18	310,879,505
South Australia	0	0
Australian Capital Territory	1	7,658,931
Western Australia	3	40,840,697
Northern Territory	0	0
Tasmania	1	3,470,104

Mortgage Portfolio Details	Actual
Total value of mortgage securities	\$580,715,275
Number of mortgages	42
Average loan size	\$13,800,000
Average loan to valuation ratio	83.59%
Total value of loans with interest built into the facility and/or capitalised	\$513,929,017
Number of loans with interest built into the facility and/or capitalised	37
Total value of undrawn loan commitments over next 24 months (progressive loan draws) funded by cashflows of the Fund	5,000,000
Number of loans with undrawn loan commitments over next 24 months (progressive loan draws) funded by cashflows of the Fund	8
Average monthly undrawn loan commitments funded by cashflows of the Fund	\$900,000

The valuation policy for the Fund's first mortgage securities is written into the lending guidelines of the Fund, forms part of the compliance plan for the Fund, and is subject to independent audit.

As at 31 January 2010 there were 25 borrowers. 8.11% of total monies was lent to the Fund's largest borrower and 56.03% of total monies was lent to the Fund's ten largest borrowers. The Fund does not have one single borrower that exceeds 10.00% of the Fund's assets.

Loan to Valuation Ratio (LVR)

LVR	No. of Loans	Value (\$)
< 50.00%	2	8,726,053
50.01% - 60.00%	2	20,499,339
60.01% - 70.00%	2	17,490,701
70.01% - 80.00%	8	75,425,302
80.01% - 90.00%	11	187,624,170
90.01% ~100.00%	14	213,565,385
> 100%	3	57.384.325

The average LVR across the mortgage portfolio as at 31 January 2010 is 83,59%.

LM First Mortgage Income Fund Mortgage Securities by Maturity Profile as at 31 January 2010

Period Maturing	No. of Loans	Value (\$)
0 – 12 months	41	577,285,393
13 – 24 months	1	3,429,882
25 – 36 months	0	0
37 – 48 months	0	0
49 – 60 months	0	0

Please note that whilst a large portion of the Fund's loans reach maturity over the forthcoming 12 months only some will repay the Fund around their maturity date.

LM First Mortgage Income Fund Mortgage Securities by Interest Rate Profile as at 31 January 2010

Interest Rate	No. of Loans	Value (\$)
= or < 7.00%	1	4,701,804
7.01% - 7.50%	0	0
7.51% - 8.00%	1	12,751,745
8.01% - 8.50%	And the comment on a second comment of the comment 	15,391,257
8.51% - 9.00%	0	0
9.01% - 9.50%	3	46,621,919
9.51% - 10.00%	1	3,429,882
10.01% - 10.50%	2	29,376,053
10.51% - 11.00%	11	149,763,829
11.01% - 11.50%	8	103,344,789
11.51% - 12.00%	7	103,272,232
12.01% - 12.50%	2	55,806,272
12.50% - 13.00%	0	0 ,
13.01% - 13.50%	5	56,255,493

LM First Mortgage Income Fund Loans in Arrears as at 31 January 2010

Period	No. of Loans	Value (\$)
30 60 days	0	. 0
60 – 90 days	1	1,863,628
90 days and over	22	324,801,833

The Manager uses the terms "arrears" and "default" interchangeably. LM calculates its loan arrears statistic in accordance with the IFSA Standard No 18, "Best Practice Guidance for Disclosure in the Mortgage Trust Sector."

The exit focus at this time is on those assets that it is reasonable to expect will return value to the Fund and to avoid "fire selling" of assets.

In managing optimal recoverability, some arrears assets have been identified for longer term holds for value in more favourable market conditions. Others are undergoing improvements to enhance marketability and secure appropriate sale price for the Fund over the medium term.

The Manager continues to actively manage each individual mortgage loan within the portfolio. Each asset has a specified course of action for ultimate realisation of the loan with critical timeframes,

The Manager's asset and recovery team continually assesses each individual loan in the portfolio to ensure that the capital and interest remains recoverable. This is done through assessment of (i) valuations, (ii) any sales in the particular security property and (iii) general market evidence.

With completed and non-development assets of the Fund, the performing loans within the portfolio will continue to generate income to the Fund. The income may include rental and the Manager continues to seek to maximise any rental returns on completed assets. For those assets in arrears, traditional recovery processes are being followed and successful completion of this process will continue to generate cash flow into the Fund

A major focus of the past twelve months has been to ensure the timely completion of development projects within the Fund. This has been achieved to a large degree with most projects now complete.

The Manager is managing the Fund with a first priority to protection of assets and investor capital.

Warning Statements/Footnotes:

- Past performance is not a reliable indicator of future performance.
- Interest distribution rates are variable, and will depend on income earned and expenses paid by the Fund from time to time, commission payable to advisers, and on the type of investment chosen.
- Fund performance is not guaranteed and returns could be lower than expected and there is a possibility that an investor could suffer a loss and may lose some or all of their principal investment. Investment in the Fund is not a bank deposit.
- 4 The unit price may vary and may decrease depending on the performance and value of the assets of the Fund.
- Investors will have limited rights to withdraw if the Fund does not satisfy the statutory liquidity test in the Corporations Act.

This product is issued by LM Investment Management Ltd (LM) ABN 68 077 208 461 Responsible Entity and AFSL No. 220281, LM requests that investors consult their financial adviser or intermediary prior to making an investment decision.



LM Investment Management Ltd

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LM First Mortgage Income Fund ARSIN DB9 343 288

ASIC Benchmark Disclosure & Update for Investors 2 September 2010

This document is provided to give investors current information on the LM First Mortgage Income Fund's (Fund) compliance with ASIC Regulatory Guide 45. The requirements of ASIC's Regulatory Guide 45 - "Mortgage Schemes - Improving Disclosure for Retail Investors" was released in September 2008. Regulatory Guide 45 refers to 8 benchmarks developed by ASIC. All unlisted mortgage schemes are required to include statements in respect of each benchmark as to whether they comply or not.

Please ensure this document is read carefully, including any warning statements, before making any further decisions on current investments in the Fund.

Fund Closed to New Members

LM Investment Management Limited (the "Manager") determined that from 3 March 2009 the Fund would not accept any applications for investment from any person who was not an existing member in the Fund.

The Fund still accepts applications for investment in the Fund from any person who is an existing member in the Fund by way of rollover of investment term, including deemed applications as part of any reinvestment of distributions. The Fund continues to offer term investments, allowing investment rollovers to existing investors, based on the ongoing achievement of the Fund's objectives, strategies, continuous disclosure as detailed in this document and any disclosure of ongoing material changes. When an investor rolls over their investment they will continue to roll for their choice of investment term until they advise the Manager otherwise. Current fixed investment terms are 48, 24, 13, 12, 6, 3 and 1 month. The interest distribution rate received is based on the underlying performance of the Fund and the term and currency of investment, 1,235. If an investor chooses to withdraw their investment at the end of their investment term, as most normal withdrawals are currently suspended, the investment will continue to earn distribution interest at a rate based on the prevailing rate of the same term as the last nominated term, until the fund's cash flow is sufficient to make the withdrawal payment. 1,23

Further detail on withdrawals is provided in the benchmark table on page 4 of this document.

Why the Fund Suspended Withdrawals and Closed to New Members

In order to protect the Fund from the prevailing credit and liquidity constraints in the property and financial markets, and the Fund's simultaneous obligation to repay its previous credit facility to the CBA the Manager closed the Fund to new investments and suspended withdrawals, with the exception of those approved under hardship provisions and feeder fund payments for distributions and expenses. Feeder funds are other registered managed investment schemes that have invested directly in the LM First Mortgage Income Fund.

The Manager has now successfully refinanced the CBA facility which is Step One in the Manager's ultimate strategy to reopen the Fund and resume normal operations in the future. Details of the fund's new credit facility with Deutsche Bank are on pages 2 and 3 of this document under "Benchmark 2:- Scheme Borrowing".

A Snapshot of Positives that the Deutsche Bank facility provides

- The facility is based upon more appropriate and commercially acceptable terms. The initial loan term is 2 years with an option to extend for a further year. The repayment requirements for the facility are far less onerous than the CBA's. The minimum requirement is for the facility to be reduced by \$18 million in the first year, rather than the far larger minimum requirement of the CBA of \$5 million per month.
- The CBA facility and the most recent terms offered by CBA to extend, were not commercially acceptable. The CBA's offer to extend was a final offer, received only one month prior to the expiration of its term. Its minimum monthly repayment requirements remained the same, with the additional onerous provision that the total debt of \$80 million be fully repaid at the end of the 4 month extension period. This would have meant that over \$80 million would have needed to be realised from asset sales over a 4 month period if other refinance could not have been achieved. Understandably, with current prevailing market conditions, to meet such a requirement could have resulted in significant asset discounts and losses to the Fund.
- The terms of the Deutsche Bank facility are more commercial and allow LM more flexibility in time and in the management of the Fund's assets and cash flow. For example, less pressure and more time to repay means we have more time to realise best possible price when exiting a loan asset, which greatly assists in the ongoing protection of capital.

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Set out below is the Manager's strategy for the Fund.

Arranging the new loan facility for the fund with Deutsche Bank is the first major step in achieving the most favourable long term outcome for the fund and investors. The CBA has now successfully been repaid through this refinance with Deutsche Bank's less restrictive loan.

Ensuring best possible realisation of assets for the Fund to protect unit price continues as a prime focus for the Manager. Ongoing detailed review and analysis of each mortgage security for exit recovery at best possible value is extremely important and as such takes considerable time and resources. Best possible exit strategies for current market conditions, timeframes and critical dates are constantly reviewed by the Manager's asset and recovery team.

Moving forward, the Manager will maintain its focus on assets to drive positive outcomes, over realistic and critical timeframes in the short, medium and longer terms.

It is noted that Australian credit remains tight in the "non-homeowner" sector of the market. Consequently, property sales in the commercial and development sectors are slow and the turnover of the Fund's loan assets is currently slow. These conditions are subject to change that is outside the control of the Manager and they will have an impact on the timeframes over which the various goals and strategies are able to be achieved.

It remains the strategy of the Manager to:-

BENCHMARK NUMBER & NAME

- Announce a proposed redemption program for those investors with a redemption request lodged. Previously expected improvements in the rate of property sales and the availability of credit within this area of the property market have not occurred. The Manager is finalising a review of all factors that influence the cash flow of the Fund prior to its announcement of the redemptions program.
- Recommence new lending in order to increase the level of interest returns being delivered to investors. 1.23 Deutsche Bank provides more flexibility for this to gradually be achieved. This measure will assist with achieving increased investor returns and to further assisting with capital protection of the Fund, as new loans will bring about a reversal of the previously required self-down mode the Fund has had to utilise since its closure. This ensures an ongoing pool of quality assets.
- Continue to monitor, review and managed the Fund and its assets to best protect capital value.

DOES LM MEET

RENCHMARK

The Manager will continue its regular reporting to investors, including timeframes and details on forward strategy for the Fund and reporting on the prevailing market conditions in which the Fund is operating and which impact the Fund.

ASIC Benchmark Disclosure for Investors

The information in the table below provides a summary of how the Fund meets or does not meet the 8 ASIC benchmarks which are required under ASIC's Regulatory Guide 45 - "Mortgage Schemes - Improving Disclosure for Retail Investors". We encourage you to discuss the ASIC benchmarks with your financial adviser. A full copy of Regulatory Guide 45 can be obtained from the ASIC website: www.asic.gov.au.

The Manager will, via direct communication, notify investors in the Fund of all information relevant to the Fund. Such information includes information that may be materially adverse and information that is not necessarily materially adverse but which is subject to change from time to time. This will include information that relates to the ASIC benchmarks such as information on the nature of the Fund's portfolio investments including details of loans, whether the Fund invests in other unlisted mortgage schemes and the conditions of such investment. A paper copy of any updated information will be given to investors without charge on request.

EXPLANATION

	BENCHMARK	
Benchmark 1;- Liquidity (which for the purposes of this benchmark means the proportion of cash or cash equivalents in the Fund's assets)	No	The Manager has cash flow estimates for the Fund for the next 12 months and as such meets ASIC's liquidity benchmark guideline to have cashflow estimates for the next 3 months. As most withdrawals are suspended the Fund will have sufficient cash or cash equivalents (not including undrawn amounts under lending facilities) to meet projected cash needs over the next 3 months. The Manager's cash flow estimates for the Fund for the next 12 months contain a detailed schedule of managed loan repayments to the Fund from its existing loan portfolio. The Manager constantly monitors and reviews the Fund's cash flow estimates however any delay in the actual realisation of projected cash flow will have a flow on effect to the Fund's actual cash flow payments which may mean that distribution payments may be delayed from time to time.
		With respect to balancing the maturity of Fund assets with Fund liabilities, the Fund met this benchmark prior to its closure to new investments. As the Fund is currently closed to new investments, the Fund is reliant on income (interest payments) from existing loans and the repayment of loans to generate cash flow within the Fund. During this time it is expected that certain loans will not meet interest payment requirements on time and/or by the original maturity date. Therefore the Fund is currently unable to balance the maturity of Fund assets with Fund liabilities and withdrawal requests. Refer to page 4 of this document under the heading "Liquidity Policy" for further details of the liquidity benchmark.
Benchmark 2:- Scheme Borrowing	Yes	Under the constitution the Manager may borrow against the Fund assets on terms and conditions acceptable to the Manager. The Manager has arranged a finance facility with Deutsche Bank AG ("DB") which was settled on 1 July 2010 principally to refinance the previous Commonwealth Bank line of credit.
		As at 1 July 2010 the amount owing to DB was the fully drawn amount of \$90 million. The loan term is 2 years expiring on 30 June 2012, with an option for a 1 year extension to 30 June 2013. The interest rate of the facility is 15% (for the initial 2 year term) and 18% (for the third year if the option is exercised).

The facility is secured by a fixed and floating charge over the assets of the Fund, providing DB, as secured lender, with first priority over the assets of the Fund. The amount owing to DB ranks before investors' interests in the scheme.

The purpose of the DB facility is to refinance the Commonwealth Bank line of credit, to establish a \$6 million cash balance within the Fund, to pay taxes, insurance and statutory charges on security properties and to pay fees, costs and expenses in relation to the facility. The facility is not intended to be used to fund distributions or withdrawal amounts.

The facility will be repaid via cashflow generated by the Fund, with minimum principal repayments of \$7 million by 31 December 2010; \$11 million by 30 June 2011; \$9 million by 31 December 2011; and where the facility is extended to 30 June 2013, \$13.5 million by 30 June 2012.

The facility agreement contains to an covenants that are usual for facilities of this nature. If a loan covenant is breached, the facility may go into default, and in those circumstances DB may elect to take recovery action. There are no loan covenant breaches at this time and the Manager does not consider that any such breaches are fikely.

Benchmark 3:-Portfolio Diversification

Yes

Refer to pages 9 to 12 of this document under heading "Portfolio Update as at 30 June 2010" for the Fund's current portfolio diversification. The Manager's lending policies and procedures for the Fund provide further details in relation to maximum loan amount for any one borrower, the method of assessing borrowers' capacity to service loans; the Manager's approach to taking security; revaluing security properties on rollover and whether the security must be income producing. Currently the Fund is not actively tending to new borrowers but is maintaining, monitoring and reviewing the Funds loans to existing borrowers. See the section headed "Lending Policies and Procedures of the Fund" on pages 5 and 6 of this document.

It is the Manager's intention over time to lend to new borrowers and this will be determined as part of cash flow management of the Fund in the best interests of all investors.

The Manager does not currently invest in other unlisted mortgage schemes, but has the power to do so in the Fund constitution. The Manager's policy on investing in such schemes is to ascertain whether such an investment is desirable for the Fund in flight of the circumstances at that time. The Manager will not necessarily require such a scheme to satisfy the ASIC benchmarks before the Manager invests in the scheme.

Benchmark 4:-Related Party Transactions

Yes

The Fund may lend to, or engage in other transactions with, related parties, but such loans and transactions are subject to review by the Board and can only be approved on commercial arms-length terms following approval by the Credit Committee. The Board's approval process is monitored by the Manager's Risk Manager and Business Standards and Compliance Manager. The Fund may also invest in other managed investment schemes which are operated by the Manager. For further details refer to the paragraphs under the heading "Related Parties" on page 8 of this document.

The Manager has a documented Conflicts Management Policy which deals with the identification, assessment and treatment of conflicts of interest and related party transactions. The Risk Manager has responsibility for monitoring conflicts and ensuring the conflict management policy is followed. The Risk Manager also prepares conflict records for each conflict or related party transaction identified. Board approval is required for all related party transactions.

Benchmark 5:-Valuation Policy

No

The Manager's valuation policies set out how real property assets over which the Fund has security will be valued (that is, on an "as is" basis, and for development loans, also on an "as if complete" basis) and how often valuations are obtained. The ASIC benchmark also requires that no one valuer conducts more than 1/3 of the valuation work for the Fund. The Fund complies with this requirement. Valuers selected to perform relevant valuations on the security property are chosen based on independence, specialist industry expertise and geographic location. The ASIC benchmark requires the disclosure of information about the valuation of a particular property for an unlisted mortgage scheme where a loan secured against the property accounts for 5% or more of the total value of the scheme's loan secured against the property accounts for 5% or more of the total value of the scheme's load book. The Manager does not provide this information due to privacy reasons and due to the commercial sensitivity of valuation information. Further details in relation to the Manager's valuation policies are outlined on pages 6 and 7 of this document under the paragraphs headed "Valuation Policies".

Benchmark 6:-Lending Principles

Νo

Whilst it is the Manager's policy to generally not exceed a loan to valuation ratio of 66.67% on construction and development loans and 75% on commercial loans (which ratios do both comply with the ASIC benchmark) it is the Manager's current practice to exceed those ratios whenever necessary in the process of working through a repayment solution in current market conditions. The Fund's constitution allows the Manager to lend funds provided that all mortgages are secured over property and the amount which may be advanced to a borrower does not exceed an LVR of 75% of the value of the security property on initial settlement. After a loan has settled and where the Manager considers it

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is in the best interests of the members of the Fund, the Manager may approve an LVR not to exceed 85% of the value of the security property. The LVR of a loan that is in default may exceed 85%. Where the loan is a development loan, funds are advanced progressively in stages through the development on a "Cost to Complete" basis and the Manager engages an external consultant Quantity Surveyor for each development and receives periodic reports on the progress of the development including certification of construction claims based on work completed. Further details in relation to the Manager's lending policies and procedures are outlined on pages 5 and 6 of this document under the heading "Lending Policies and Procedures for the Fund".

Benchmark 7:-Distribution Practices

Yes

Current and forecast distributions are sourced from income earned from the assets of the Fund. Currently income is earned from the existing assets of the Fund via (i) interest payments the Fund receives from its existing income producing loans and (ii) existing loans on which interest is being capitalised for collection on the repayment of those loans to the Fund. The interest distribution rates are variable depending on the income earned, expenses paid and other matters relevant to the Fund. If the income earned is not sufficient to pay all expenses and interest distributions the returns to investors may be lower. The return will be determined based on the amount available to pay interest distributions. From time to time, where there are delays in the repayment of loans back to the Fund, there may be a delay between declaring the distribution and the Fund actually paying that distribution.

Benchmark 8:-Withdrawal Arrangements

Yes

As stated in the Product Disclosure Statement, in certain circumstances withdrawal payments may be extended to 365 days or suspended. Withdrawals have been suspended to protect Fund assets and provide stability in current market conditions. Subject to the cashflow of the Fund, only withdrawals approved under hardship provisions and feeder fund payments for distributions and expenses may be made. Investors may apply under ASIC hardship provision for withdrawal of their investment. ASIC hardship provisions are prescriptive and investors who wish to apply under these provisions must meet the hardship criteria outlined in ASIC's provisions. Investors can contact the Manager who will provide details of ASIC's hardship withdrawal provisions. If the withdrawal is allowed under ASIC hardship withdrawal provisions payment will be subject to cashflow of the Fund.

A withdrawal notice may still be lodged. Investors must give the Manager written noticed signed by the investor/s. Flexi investment investors must provide 1 business days notice, Fixed Term investments investors must provide at least 5 business days notice prior to the maturity date, and Savings Plan investors following the initial 12 month investment period must provide 1 business days notice. If an investor chooses to withdraw their investment at the end of their investment term, as most normal withdrawals are currently suspended, the investment will continue to earn interest based on the same term as the last nominated term until cash flows permit the withdrawal to be paid.

Investors should also note the automatic rollover provisions which apply to their investments, and the time periods for notice to be given to withdraw are as outlined in this section,

The amount payable to investors on withdrawal will be the issue price of their units at that time. This amount is subject to change depending on the net value of the assets of the Fund.

\$167.1 million of investments in the Fund have a withdrawal pending.

\$150.5 million of investments in the Fund's feeder funds have a withdrawal pending.

The total being \$317.6 million of investments in all funds have withdrawals pending.

Prior to the global financial crisis ("GFC"), the Fund's historical withdrawal rate averaged 1.5% of total assets on a monthly basis, including feeder fund withdrawals. Based on this pre-GFC historical withdrawal rate, if the investment environment had been normal over the past 12 months, withdrawal trends would have been expected to equate to approximately AUD\$115 million as opposed to the AUD\$317.6 million of withdrawals actually received since 3 March 2009. The increase in withdrawals is as a direct result of the extraordinary environment created by the GFC.

Liquidity Policy

The Manager monitors and balances the Fund's portfolio of assets between cash and Australian registered mortgage securities as part of the Fund's liquidity management.

The liquidity policy of the Fund describes the methodology the Manager applies to balance the maturity of the assets and liabilities of the Fund. The Manager continually monitors and manages the variables that impact on liquidity. As the Fund is currently closed to new investments, the Fund is reliant on the repayment of loans to generate cash flow within the Fund. The repayment of a loan to the Fund is subject to a sale or refinance with another financial institution. Australian Financial Institutions are not readily lending in the "non-homeowner" mortgage sector and as a result, activity in the commercial and development property sectors is slow. For these reasons, during this time it is expected that certain loans will not meet repayment by their original maturity date.