

31 July 2008

Dear Investor

As investment manager of Mirvac AQUA (the **Manager**) I am writing to inform you that with immediate effect all applications and redemptions for all Mirvac AQUA Funds<sup>1</sup> are suspended for up to six months, and that the Mirvac AQUA Income Fund Product Disclosure Statement (**PDS**) has been withdrawn from the market.

### **Current state of global credit markets**

The virtual closure of securitisation markets has impacted the cost of funds to the banking sector and has caused the business failure of numerous securitised lenders. The consequences are far reaching, but include:

- > the banks are now free to pass on their cost of fund increases without effective competition from non-bank lenders, which has increased the cost of money and effectively decoupled interest margins from official interest rates;
- > the banks concerns over their own capital adequacy is beginning to force banks to ration lending;
- > some mortgage fund lenders have experienced significant net outflows and also commenced either rationing or stopping lending; and
- > the ability of borrowers to finance or refinance their mortgage loans has become severely restricted and considerably more expensive if they are successful.

These events have clearly impacted the direct property markets. There has been much speculation about the direction of property values in the period ahead although it is widely thought that the supply and demand fundamentals will substantially mitigate the extent of any debt-led downturn. Despite the somewhat uncertain future of the property markets, the Manager considers that the current global debt market has created an extraordinary period for the fund/pools to lend both at historically high returns and historically low risk profiles. Whilst remaining cognisant of market risk, Mirvac AQUA believes that new lending is now able to be conducted on terms and returns that are more favourable to investors than we have seen for nearly 20 years.

### **Impact on Mirvac AQUA Funds**

Given the current market conditions, the Manager is undertaking a "stress testing" of its loan portfolios. In early July, Mirvac AQUA appointed a Receiver and Manager to one of these loans. As a result of this, the Manager determined that several loans contained in the Mezzanine Debt Pool (into which the High Income Fund and Enhanced Income Fund directly invest) are impaired. These impairments may result in losses of interest and/or principal. The impaired loans total \$39 million in value and comprises 20.4% of the total assets (cash and mortgages) of the High Income Fund and 10.5% (cash and mortgages) of the Enhanced Income Fund. For the purpose of clarity the Manager does not believe that the entire value of these impaired loans is at risk of principal loss.

The loans are registered second mortgage/mezzanine loans secured over either completed or largely completed developments. Ordinarily on loans of this type, interest is capitalised to the end of the loan term but accrued and distributed monthly. These loans have been placed on non-accrual and as such the interest that might otherwise have been paid to investors will not be paid. Consequently, effective from the July distribution, the Manager expects the returns from the High Income Fund will decline to between 5% and 6%

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<sup>1</sup> [Mirvac AQUA Income Fund (ARSN 110 222 850), Mirvac AQUA Enhanced Income Fund (ARSN 119 299 179), Mirvac AQUA High Income Fund (ARSN 110 223 348) and Mirvac AQUA Senior Debt Pool (ARSN 110 223 240), Mirvac AQUA Construction Debt Pool (ARSN 110 223 133) and Mirvac AQUA Mezzanine Debt Pools ARSN 110 223 044]

per annum, until such time as the loans are repaid, and/or the interest received from new loans restores the Fund and Pool returns to higher levels. The Enhanced Income Fund will be also be impacted, however we do expect that the returns will decline less, to between 6% pa and 7% per annum. We wish to advise that there is no impact on the returns to the Income Fund or the value of its unit price.

The Responsible Entity, Mirvac Funds Management Limited (RE), the Manager and the Mirvac AQUA credit team are reviewing the loans in detail to determine the likely impact on returns to the affected Funds and Pool, the likely timing until the status of these loans is definitively ascertained, whether there is a need for any capital provisions and the most appropriate method of managing these loans in the best interest of unit holders.

It is worth noting that the Mirvac AQUA Funds hold substantial levels of cash, as noted below as at 25 July 2008.

Mirvac AQUA Fund	Fund size	Liquidity (on look through basis), expressed as a% of total Funds Under Management (FUM)	Cash
Income Fund	\$54m	26.6%	\$14.4m
Enhanced Income Fund	\$6.3m	43.7%	\$2.8m
High Income Fund	\$183m	51.6%	\$94.7m

#### **Withdrawal of PDS and process for applications and redemptions**

To ensure that all unit holders are treated equally and fairly given the above circumstances the RE has determined to withdraw the PDS from the market with immediate effect from July 30 2008, and to suspend applications and redemptions for a period of up to six months in accordance with the Constitution. This will enable the Manager to address both the loan performance issues and to restore value to the Funds / Pools investors.

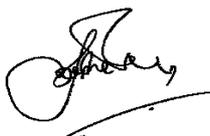
It should be noted that applications and redemptions received on Friday 25 July 2008 have not been processed. Application monies will be returned immediately and the redemptions will be placed on file for redemption when the Fund/Pool in question re-opens at the unit price prevailing on that day. Letters will be written to these investors, informing them of the actions and allowing them the opportunity to retain or withdraw their redemptions request.

The portfolio review will be concluded as quickly as possible and the Manger will write to Unit Holders within two months to discuss the portfolio in more detail and the Manager's strategies to both manage and deliver value to unit holders.

Whilst investors in the Mirvac AQUA Income Fund have no exposure to the impaired loans, the RE is aware that there are a high proportion of investors with investments in both the Mirvac AQUA Income Fund and the Mirvac AQUA High Income Fund. Given this the RE recommends that it is also in the best interest of all unit holders to suspend applications and redemptions in all of the Mirvac AQUA funds for up to six months.

We will continue to keep you informed of this process.

Yours sincerely



Stephen Tunley  
CEO Mirvac AQUA