



22 November 2012

Dear Investor

## RE: BALMAIN AQUA HIGH INCOME TRUST – COMPULSORY REDEMPTION PAYMENT

We last wrote to you regarding your investment in the Balmain AQUA High Income Trust in late June 2012. Since that last letter, we have reviewed the Trust and its cash flows and are pleased to advise that we have determined to make a Compulsory Redemption at the end of November which will return the Trust's excess cash that is surplus to requirements. The amount of the Redemption will be approximately \$44 million, equivalent to 59% of the Net Asset Value of the Trust as at 31 October 2012. All unit holders on the register at 30 November 2012 will receive their pro rata share of the Compulsory Redemption, paid into their nominated bank account in early December 2012.

Further to the above, if existing mortgage loans are repaid as scheduled, a further Compulsory Redemption will likely be paid in March 2013. We will be in a position early in the new year to determine this and we will again contact you with an update.

As the Trust winds up, its fixed expenses will increase relative to its income and this will likely result in a decline in the returns from the Trust in the months following. At this stage we do not expect this to be significant, however this does depend to a degree upon the direction of official interest rates and their impact on cash rates able to be earned on the Trust's cash balances held on deposit.

The Trust was scheduled to wind-up in June 2013, however, it appears that at this stage it is unlikely that the Trust will be in a position to be fully wound-up by June 2013. This in part is due to an outstanding legal matter the RE has brought against a valuer to the Trust that, if successful, will increase the value of the underlying unit price. Unit holders should be aware that matters such as these are complex and may not result in a settlement in the Trust's favour. However we have been advised by legal counsel that we have a strong case and will continue to vigorously progress the legal action and we will keep you informed when any material news comes to hand.

### **December Mandatory Redemption**

In December 2012, there will be a modest Mandatory Redemption for an amount of approximately \$1.2 million reflecting the sales of Existing Loan Assets (ie. assets held by the Balmain AQUA High Income Trust as at December 2009) that were realised between 1 June 2012 and 30 November 2012. Your pro rata share of this will be paid separately to the Compulsory Redemption discussed above, but we expect it will be received on the same date as the Compulsory Redemption.

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Balmain AQUA Pty Limited (ABN 94 107 030 240) is the Investment Manager of Balmain AQUA High Income Trust (ARSN 110 223 348), Balmain AQUA Income Trust (ARSN 110 222 850), collectively the 'Schemes'. The responsible entity of the Schemes is The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL 235 150).



If you have any queries about your investment in the Trust or the information disclosed above, please don't hesitate to contact our client services team on 1800 225 624.

Yours sincerely

**Stephen Tunley**  
CEO, Balmain Funds