



27 May 2012

Dear Investor

BALMAIN AQUA HIGH INCOME TRUST - COMPULSORY REDEMPTION PAYMENT AND WIND UP

In mid to late June we will be making the first of two Compulsory Redemption payments. In total the Manager expects the redemption payments will represent approximately 31% of your current unit holding and 77% of the projected cash in the Trust. The first payment in late June will be for 22% of your current unit holding and the second payment is estimated to represent 9% of your unit holding and will be made to you in the September quarter 2013.

As discussed in the newsletter sent to you with the March distribution statement, we are unable to wind up the Trust completely by June 2013. This is due to the outstanding legal matter the Responsible Entity has brought against a valuer to the Trust as well as three remaining loans, two of which we are mortgagee in possession (MIP) and have been managing intensively for some time and a further loan where we are seeking payment of an outstanding debt under the borrowers personal guarantee. In the case of loans where we are MIP, we believe that they will be resolved in 2014.

With respect to the legal matter, Unit holders should be aware that matters such as these are complex and may not result in a settlement in the Trust's favour and as stated in the letter to you in November 2012, we have been advised by legal counsel that we have a strong case and will continue to vigorously progress the legal action. We will keep you informed as and when any material news comes to hand.

Monthly Distributions

After 30 June 2013, we advise that monthly distribution payments to investors will cease. The reason for this is that the combination of income from the loan in the Trust that generates income, together with the interest earned from the Trusts cash position of ~ \$2.6 million (held in an interest bearing account with an Australian bank) will be used to offset Trust expenses. As you will no longer be receiving monthly distributions, you will now receive quarterly transaction statements rather than monthly distribution statements.

Suspension of Transfers until Completion of Second Compulsory Redemption

We will be suspending all standard transfers of accounts from 13 June until the second payment in the September quarter. This is due to the lengthy timings and processes involved when transferring accounts.

In order to transfer an account, investors must submit their transfer form to the NSW Office of State Revenue, receive the form back and then send it through to us. The NSW Office of State Revenue's turnaround time on transfers is currently 4 to 6 weeks. As we are making a Compulsory Redemption to all investors in June and another in the September quarter, the number of units in your account will change accordingly as the redemptions are made and therefore the number of units on the transfer forms received back may be incorrect and would be rejected. We will write to advise you when transfers have recommenced.

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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).



Final Payment

Once the remaining loans are resolved and the legal matter settled, we will make a final payment to you and wind up the Trust. We are working to wind-up the trust as quickly as possible but do not expect that this will occur until 2014. We will continue to keep you informed as to a final payment date.

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

Yours sincerely

Stephen Tunley
CEO, Balmain Funds