

Dear Investor,

We write to update you on the following LM funds:-

LM First Mortgage Income Fund
LM Wholesale First Mortgage Income Fund

In short

- Redemptions are delayed.
- The fund's underlying mortgage assets remain sound.
- Investor income continues.

General market conditions of unprecedented uncertainty, the decline in global economic conditions and the lack of liquidity within the banking sectors saw us tighten our management strategies for the fund last year, with a need to delay redemption payments to protect the investment capital for all investors.

The continuation of these market conditions, and in particular, the lack of liquidity within the banking sector, mean that the fund must now manage a change in bank loan arrangements which will further impact the timeframes around redemptions payments.

For a number of years, the fund has had a line of credit facility provided by the Commonwealth Bank of Australia (CBA), currently at AUD\$150 million.

On Friday 30 January, the CBA advised that as part of the conditions of approval of the extension of that facility to 31 July 2009, the bank would require its line of credit paid back in priority to most investor redemptions. The CBA is legally entitled to do this under the terms of its facility with the fund.

The CBA has insisted that the fund cash flow is to be directed to payout their loan first, ahead of most other investors. The CBA's position means that the payment of investor redemptions is likely to take 365 days.

Part of our management strategy is to seek alternative sources of funding from both institutional and private sectors. Due to the lack of liquidity in the sector currently, we would not expect to be immediately successful in this endeavour. We assure you though that we are focused and that we are working as hard as we can to alleviate the situation.

The fund continues to perform and is delivering to investors rates of interest greater than cash.^{1,2,3}

Below are some commonly asked questions:-

Q. Does the CBA have a legal position of priority?

A. Yes it does. It also has a fixed and floating charge over the assets of the fund.

Q. Will I continue to earn income?

A. Yes, your investment will continue to earn income.^{2,4} From time to time those income payments may be made later than has been usual.

Q. What happens to my investment when my current term expires?

A. Whilst redemptions are restricted, where you have requested that your investment be redeemed, it will remain invested and will continue to earn income.^{2,4} The rate your investment earns may vary during this period and will change with official changes to the rate on the investment term you had selected. We will notify you of any changes to the rate on your investment.

Q. What is the status of the fund and its assets?

A. The underlying mortgage assets of the fund remain sound.

The audited financials of the fund will be available very shortly, and we will advise all investors once they have been signed and lodged.

Historically, LM has been able to very accurately forecast and match the fund's flow with the refinancing of loans from other lending institutions, forming a significant part of the fund's cash flow. Presently, this is a very difficult part of the market, given banks are not lending to the levels they once were.

LM believes that once the markets return to some form of normality the banks will be lending again, as ultimately, banks need to lend to make money.

LM is currently working with each of its borrowers with a view to assisting them in finding alternative finance on all of the loans which are due to expire this calendar year. We are very active in this area of our business, and have an experienced team to manage the fund, whilst assisting our borrowers throughout this process.

Q. Is it possible to earn a higher rate of return?

A. If you do not wish to redeem, you can earn a higher rate of return by reinvesting for a longer period.²

We advise that on 3 March 2009, a Supplementary Product Disclosure Statements (SPDS) were issued for the LM First Mortgage Income Fund and LM Wholesale First Mortgage Income Fund, and are enclosed for your information. The SPDS' contain updated information in relation to the fund and your investment and, for completeness, should be read in conjunction with the Product Disclosure Statement and most recent SPDS.

LM is a fund manager committed to achieving the best results for the unit holders in our funds. We have investment funds open to our financial planners that outperform cash across three different levels.^{1,2,3}

Your financial adviser will be able to assist you with further information if required going forward.

Yours faithfully



Peter Drake
Chief Executive
LM Investment Management Ltd

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¹ Past performance is not a reliable indicator of future performance.

² Fund performance is not guaranteed, 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.

³ The risks associated with an investment in the fund are different to cash.

⁴ Based on current information.