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24 September 2012

Dear Investor

Balmain (MWMT) Mortgage Trust – Quarterly Capital Redemption Payments

I am writing to you with regard to the Capital Repayments which are made automatically to MWMT investors each quarter.

Upon review of the liquidity of the Trust, it has been determined that the Trust does not have sufficient liquidity to make its intended redemption payments to unit holders. As such, we will reduce the quarterly payment amount by **15%** i.e. the payment will be at 85% of the usual amount.

This will be calculated from 1 October 2012, as this is the effective date of the next quarterly redemption payment. The payment will be made on or around the 11th business day of October into your nominated bank account on file.

We understand that investors have come to expect a standing amount for this redemption and apologise for any inconvenience caused. To ensure all unit holders are treated equally we advise that this adjustment will also apply to investors in our retail trust with 'Existing' and 'FT36' units redemption amounts scaled back by the same amount.

The outstanding payment amounts will be paid equally across all units when the Trust has sufficient liquidity to do so and at this stage we expect this to occur late in the April financial quarter 2013. We will keep you informed as to the progress of this via the usual communications and the website www.balmain.com.au

The issue has been brought about by the timing of existing (pre-GFC) loan repayments. This is a consequence of the refinance market for commercial property loans which remains difficult, in certain market sectors which face oversupply. Several loans in the Trust expected to be repaid in the September quarter have not secured refinance. We are working with the borrowers to assist them in securing refinance but are unable to be certain as to the exact timing of when these will occur.

Excess Taxable Income

On a separate matter, we have received a number of queries seeking clarification regarding the Excess Taxable Income, as disclosed in the 2011/2012 Annual Tax Statements.

The Excess Taxable Income amount is the amount which, along with the Cash Distribution amount, equals the total taxable income (Non-Primary production income).

The taxable income was greater than the actual distributions received as a result of some loans in the portfolio being deemed by the Manager as "non-performing". According to Australian Accounting Standards, when this occurs the manager must make a provision against

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Responsible Entity for the Balmain (MMT) Mortgage Trust (ARSN 107 891 967) and the Balmain (MWMT) Mortgage Trust (ARSN 112 662 987)

these loans, indicating that it is a loan that may not be able to be repaid. It is also a requirement of the Fund's Auditors that the loans reflect the manager's view (at the time) of the likelihood of recovery. The cash distributions during the year to investors were reduced due to these provisions; however, the provisions are not deductible for tax purposes, until such time as the decision to move from a provision to a write off is made. The result of this is that taxable income is higher than the cash distribution paid during the year.

In future years the loan could be recovered (in part or full) or the manager may determine that additional recovery is not possible and to write off the loan. Under such a scenario the result would be that your taxable income from the Trust would be less than the amount you received in your bank account that financial year. This is because you would have paid tax in the current year and would not need to be taxed again in future years.

Please feel free to call our Investor Services Team on 1800 225 624, if you have any further questions.

Yours sincerely

Stephen Tunley

CEO, Balmain Funds