

28 November 2008

Dear Investor

**RE: MIRVAC AQUA INCOME FUND (IF), MIRVAC AQUA ENHANCED INCOME FUND (EIF) & MIRVAC AQUA HIGH INCOME FUND (HIF) (the Funds)**

**Update**

As many of you would be aware, in October the Australian Federal Government took the extraordinary step of guaranteeing the deposits held in Australian banks, building societies and credit unions. This created a situation where many mortgage trusts faced a run on redemptions as investors sought the benefit of the Government guarantee. This, in turn, caused the majority of mortgage trusts in Australia to close their funds to applications and place a freeze or structured limit on redemptions. The ramifications of this decision, which favours financial system stability over competition, are likely to continue for some time and have far reaching impacts across the financial sector, and the real estate lending sector in particular.

The Australian mortgage trust sector is approximately \$20 billion in size, it is estimated that some \$8 billion is lent by the trusts each year. An effect of the closure of the sector is that these monies for lending have now largely disappeared. This outcome may impact the Mirvac AQUA Income Funds as the exit strategy (the basis that a loan is repaid), as it is for many lenders, is the refinance of a maturing loan with a bank or mortgage fund. Where loans are not able to be repaid at maturity, some may need to be extended on new terms and conditions which, in turn, extends the duration of the loan book. Even if the borrower's exit strategy were the sale of the property with sale proceeds used to repay the debt, the limited availability of credit (commercial mortgage lending) makes this outcome uncertain.

**The Mirvac AQUA High Income Fund**

Whilst the issues outlined above impact all Mirvac AQUA Funds (as it does all other mortgage funds), the issue is more problematic for the HIF.

The HIF's loan portfolio consists primarily of registered second (mezzanine) mortgage loans. These loans rank behind first mortgages in terms of security. Due to the virtual closure of Global credit markets, an increasing number of mortgage borrowers are in 'maturity' default - that is, they have been unable to either refinance or sell the underlying asset and are, therefore, in default and at risk of mortgagee sale. This outcome may adversely affect our security position. If we are unable to persuade the first mortgagee to hold until the market regains normality, then we may need to consider acquiring the first mortgage. In the past we have undertaken this on several occasions and achieved a better outcome than had allowed the first mortgagee to act. Given this, the relatively high levels of cash held in all Mirvac AQUA Funds, particularly in the HIF, will allow us the flexibility to utilise cash if needed for this purpose.

## **Funds to remain closed until at least April 2009**

Whilst there will undoubtedly be an end to the current situation, no one is in a position to say when. The Responsible Entity has determined to extend the period of closure for an additional period to 30 April 2009.

## **Liquidity of the Mirvac AQUA Income Funds**

As we have noted in previous correspondence, prior to the closure of the Funds the Manager had prudently built up high levels of liquidity in all of the Funds. The liquid investments of the Funds are currently held in a mixture of cash and term deposits with Australian banks.

The liquidity position of the Funds (on a look through basis, including cash in Funds and the relevant proportion of that held in the Mirvac AQUA Debt Pools to which each Fund is exposed) has increased since we last wrote to you. As at 31<sup>st</sup> October, 2008 the balances stood as follows:

	<b>As at % of FUM</b>	<b>Dollar value (\$m)</b>
<b>Mirvac AQUA Income Fund</b>	32.46	17.45
<b>Mirvac AQUA Enhanced Income Fund</b>	52.28	3.20
<b>Mirvac AQUA High Income Fund</b>	60.54	103.50

Some of these liquid funds are required to:

- o fund existing loan commitments (approximately \$5.8 million in aggregate as at 31<sup>st</sup> October 2008);
- o fund capitalised interest payments paid monthly to investors in the EIF and HIF; and
- o fund other costs incurred in managing the Funds and the underlying mortgages.

## **Pro-rata Redemption offer to all investors**

Mirvac Funds Management Limited (MFML), the Responsible Entity (RE) of the Funds, has determined that despite the facts outlined above, some of the liquidity in the Funds is surplus to the RE's assessment of the Funds' requirements. It has, therefore, determined to offer a pro-rata redemption facility to those investors who wish to redeem part of their investment.

The offer will be available to all investors who lodge their redemption request before 3 pm on Friday 9<sup>th</sup> January, 2009. Payments for applications received will be made on Friday 16<sup>th</sup> January, 2009.

The value of the redemption will be calculated using the unit price prevailing on 15<sup>th</sup> January 2009 and will comprise a return of capital and income for the period 1<sup>st</sup> January 2009 to 15<sup>th</sup> January 2009.

As each Fund's cash requirements are different in the period ahead, we have adjusted the relative pro-rata percentage of units available for each Fund to reflect this (figures based on Fund size and unit price as at 31<sup>st</sup> October 2008). Please note that the offer to redeem is set as a fixed percentage of units owned by the investor and we are unable to either increase or decrease the percentage.

	<b>Percentage offered for pro-rata redemptions</b>	<b>Approximate dollar value this represents of potential redemptions if all investors take up the offer</b>	<b>Estimated liquidity position as a proportion of FUM post redemptions*</b>	
<b>Mirvac AQUA Income Fund</b>	20%	\$10.75m	15.57%	\$6.70m
<b>Mirvac AQUA Enhanced Income Fund</b>	20%	\$1.22m	40.35%	\$1.97m
<b>Mirvac AQUA High Income Fund</b>	10%	\$17.10m	56.15%	\$86.40m

The redemption will be paid to the nominated bank account of the investor. The effect of this redemption would be to reduce your investment by the same proportion and a corresponding reduction in the future income distribution payments.

As advised in previous communication dated 30<sup>th</sup> September 2008, the unit prices of the EIF and HIF have taken into account the \$12 million provision for impaired loans which was applied to the value of mortgage investments in the Mezzanine Debt Pool, to which the EIF and HIF have exposure. Therefore, the pro-rata redemptions will be calculated using a unit price which is at a reduced value to that on which you initially entered these Funds.

It is important to note that should any monies accounted for in the previous provision relating to the EIF and HIF be recovered, the proportion of your investment redeemed from these two Funds would not have the benefit of such recovery. Similarly, any future potential losses would also not affect the portion of your investment which you have redeemed.

You are not required to accept the offer of this pro-rata redemption. If you choose not to participate, no further action is required.

Should you wish to take up the offer, please complete the attached form and return it to us using one of the methods detailed on the form no later than 3 pm on 9<sup>th</sup> January 2009. The proceeds of the redemption will be paid by 16<sup>th</sup> January 2009.

### **Future Redemption Program**

The Manager intends to open the Funds to pro-rata redemptions on a financial quarter basis with effect from 31<sup>st</sup> March 2009.

Redemptions will be paid on a pro-rata basis using funds surplus to requirements, as determined by the RE, and paid to investors who have lodged redemption requests by this date. Please note that there is no queuing and, as such, investors who lodge redemption requests before this date will have no advantage over those that lodge on the date.

### **Financial Hardship and Redemptions**

Mirvac AQUA has been working with the Investment and Financial Services Association ("IFSA") and the Australian Securities and Investment Commission ("ASIC") to investigate the option of further partial redemptions via a Financial Hardship request. We are currently waiting on ASIC to clarify their position on the administration of such requests at which time a Financial Hardship policy will be formalised and made available to unit holders.

Please continue to check our website at [www.mirvacqua.com.au](http://www.mirvacqua.com.au) for updates which may be added from time to time, or for copies of past communication regarding the events leading to suspension of the Funds.

### **Where to from here?**

As discussed at the beginning of this letter, the present market conditions facing all mortgage lenders (mortgage trusts and banks alike) is difficult. The effect of the Government guarantee, whilst stabilising the financial system, has created dislocations across the Australian credit markets. Given this, we have determined that the Funds will remain closed until 30<sup>th</sup> April 2009.

It is our intention to continue to provide updates to Fund investors and, once the situation becomes clearer, to meet with Investors to canvas discussion about the Funds' future.

Kind regards

A handwritten signature in black ink, appearing to read 'Stephen Tunley', with a long horizontal flourish extending to the right.

**Stephen Tunley**  
CEO  
Mirvac AQUA

- Please complete form using blue or black pen, printing within the boxes in clear capital letters.
- Mark answer boxes with a cross (X).
- If you have any questions in regards to filling out the form please contact our registry provider on (02) 9229 9482.
- **Please mail completed form to: Mirvac AQUA c/ Perpetual, P.O. Box 2737 Sydney NSW 2001**
- **This form is required to be received no later than 3pm on Friday 9 January 2009 to be eligible for this offer.**

My/Our investor ID is:

I/We wish to accept the offer to redeem the stipulated pro-rata percentage of my/our investment in the following Mirvac AQUA Funds:

- Mirvac AQUA Income Fund – 20%
- Mirvac AQUA Enhanced Income Fund – 20%
- Mirvac AQUA High Income Fund – 10%

I/We am aware that I/we cannot vary the percentage amount offered in this pro-rata redemption. I/We acknowledge that the Responsible Entity has removed the option of daily redemptions and this offer is subject to the availability of surplus cash in the relevant Fund.

Please pay the proceeds from our pro-rata redemption to the following financial institution details:

Bank/Building Society/Credit Union:

Branch:

Branch number (BSB):  -  Account number:

Account name:

Address:

I/We acknowledge that direct credits not accepted by my/our bank, building society or credit union will be held in trust by Mirvac AQUA until I/we provide accurate financial institution details.

I/We declare that all the details given in this form are true and correct.

I/We authorise you to act in accordance with my/our instructions as set out above.

I/We acknowledge that I am/we are providing personal details in this form and I/we agree to be bound by the privacy notices and consents set out in the Product Disclosure Statement that was current at the time of our investment.

Applicant 1 or Director or Company Secretary:	Date:	Applicant 2 or Director:	Date:
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Note: When signed under Power of Attorney, the attorney states that they have not received a notice of revocation. Please send a certified copy of the Power of Attorney with this form for Mirvac Funds Management Limited to view.