

Letter of Appeal

I am writing on behalf of the 10,387 Unit holders who have invested in the **Premium Income Fund** ARSN 090 687 577, which is a registered Australian Investment Scheme.

The Fund was first registered on 22 December 1999 by MFS and investors received monthly income and could redeem their capital or reinvest when the investment matured. All distributions and redemptions were frozen as at Jan 2008 and unit holders have received nothing to date from their holdings.

The Fund is currently managed by Wellington Capital Limited. The Fund was previously managed by Wellington Investment Management Limited (formerly known as Octaviar Investment Management Limited and prior to that MFS Investment Management Ltd) who took responsibility for the Fund on 2 May 2008.

There are currently 755,195,542 Units on issue in the Premium Income Fund (PIF) and the net asset backing of one unit in the Premium Income Fund as at 30 June 2008 was 45 cents per unit. As at 31 Dec 2007 these units were valued at \$1.00 per unit. Due to the unprecedented global meltdown that is deteriorating daily, our units are in all likelihood valued at less than the 45 cents. Our fund also has a \$55 million exposure to the Gold Coast property developer Raptis Group, which went into Voluntary Administration 2 Feb 2009, so any chance of future distributions are rapidly diminishing. The PIF is also owed \$197.5 million in compensation from OCV (also in Voluntary Administration 13 September 2008) for money improperly withdrawn from the Fund. It is highly unlikely anything will be repaid from OCV due to lack of assets.

The vast majority of borrowers are in default on their loans to the PIF. Currently there are 32 loans in our portfolio, 22 are 'mortgagee in possession' and another two (2) loans are being managed by a liquidator. Some of the 22 are in need of further funding to complete the projects but to date have been unable to secure credit.

Will there be any provision in the next stimulus package to address the problem of unattainable credit, which has affected numerous other Funds also?

As a direct consequence of the loss of distributions, there are now thousands of previously self-funded retirees and part-pensioners requiring additional pensions and struggling to make ends meet. In addition, there are many who do not qualify for any Centrelink benefits and have been forced back into the workforce or are having to sell other assets just to live. I know of previously comfortable elderly people having to sell their family homes and live in caravans, an eighty year old lady taking in ironing, another renting her own home and living with her daughter and others having to sell treasured personal possessions.

Currently many investors are not eligible for any of the government handout. We genuinely have always preferred to be self-funded retirees without being a burden on our country and our welfare system, but due to the current situation, we are not receiving any of the government stimulus nor can we access our money that effectively helped this nation grow.

With further expected reductions in interest rates by the RBA, circumstances will get a lot worse for self-funded retirees and pensioners. While other similar funds have been frozen recently, the PIF has been frozen and had approximately 55% to 88% of our investments lost [current PIF value on the NSX is 0.12 cents per unit]. This is a serious problem and needs immediate Government intervention. Please consider carefully how this problem can be addressed.

PIF investors would like the appropriate minister **to request a Senate Enquiry** into how MFS/Octaviar, allegedly, improperly, dealt with funds from the Premium Income Fund to prop up other failing arms of MFS/Octaviar that were NOT within the guidelines of the PIF prospectus. In particular, that they seemingly were **NOT** first mortgage investments and were possibly, inappropriately, lent to MFS/Octaviar related entities. If this was the case, they would have been illegal related party transactions. Funds lost by this [alleged] illegal, process are in the vicinity of \$330 million. Investors were at all times assured by MFS/Octaviar staff that their Funds were 100% safe and PIF assets were held by the PIF Fund Trustees, Perpetual Nominees, on their behalf. Perpetual's duty of care is also, therefore, questionable

The Federal Government has given unprecedented, unlimited, uncapped, deposit guarantees to Authorised Deposit-taking Institutions [ADI] [Banks] and existing non ADI [Building Societies, Credit Unions]. We feel that this **Senate Enquiry should extend to including a Government guarantee to investment deposits of injured funds like the PIF** and even the purchase of these [mainly] First Mortgage Investment Funds, if failed or failing, by the Australian Office of Financial Management (AOFM). This will also provide a level playing field for such non-ADI lenders who currently do not have the benefit of the guarantee of the funding facility, ensuring that this sector of the lending market has access to funding for their operations. It is reasonable to ask this, considering the multiple billions of dollars tied up [or frozen] in this sector, that such sector funds are worthy of several billions of dollars in government backing and preferably uncapped. This stimulus should facilitate these type of income funds receiving new investments, making them profitable again. The argument by some, that this sector of the investment market, is somehow risky and therefore not worthy of government guarantee, is spurious, in that many ordinary Australians have invested primarily in such funds, because they were considered conservative and backed by secure first mortgage assets. These numerous Australian investors should not be so easily discarded by government in their economic strategy.

Government and ASIC intervention requests were raised by many PIF investors last year through their local members of parliament and also with direct communication. Except for placating comments, there were no results.

Investors in the PIF have not received a cent of payment over the last 12 months or more and as monitored by the PIF Action Group, investor anger is clearly rising and pressing for effective, substantial, government intervention into this very grievous state of affairs. If the Federal Government and ASIC do not provide effective moral assistance, via their respective duties to hard working Australian citizens, you will force us to begin approaching the media, non-government organisations and other action groups of companies who have also been affected by the financial meltdown, violated disclosure rules and/or illegal proceedings and transactions. We need to make

changes in law and in government relating to the way investors have been treated and continue to be treated.

My Case is as follows. **Investor ID: 68354**

My husband & I accepted a work contract in the USA in February 2007. I applied for my lump sum Superannuation (as I am over 55yrs), we sold our home, our car, all our furniture and possessions. We invested everything we had (\$759,000) in the MFS Premium Income Fund @ 9% interest for a 12 month term. We returned from the US in October 2007. My husband was offered a job with Wyndham Vacation Resorts on the Gold Coast, so we decided to look for a home unit to buy. We signed a contract to purchase a Southport unit, thinking we would be redeeming our funds at the 12 month term. We had completed all the necessary redemption documents prior to 21 January 2008, expecting we would be able to pay for our new home unit and place the remaining funds into our BankWest Telenet account. MFS froze our funds on 29 January 2008. We have not received any disbursements and have been told we will be lucky to recoup any of our life savings, the \$1 units now being valued at 12 cents). I have had to return to full-time work and we have been struggling financially ever since. We have no savings. We are not eligible for Centrelink benefits. Our weekly wages barely cover our mortgage and modest living expenses. We use our credit card to cover basic bills, electricity, gas, body corp, rates. We do not smoke or live lavishly. We have always been frugal and conservative in our expenditure.

We simply ask for justice and real help from anyone in government. **We implore you. We plead for justice. Now is the time for the Government to act!**

Yours sincerely,

Andree & Kalvin Ernst