5 December, 2013

PROGRESS SUPER FUND ILLIQUID INVESTMENT STRATEGY UPDATE

Dear member,

We are providing you a further update on the Illiquid Investment strategies of Progress Super Fund (PSF) (ex. Bookmakers Superannuation Fund).

Summary of the update

- Further success has been achieved in disposing of a number of the remaining security properties, over which mortgage investments of PSF are held;
- Market conditions for the sale of security properties has improved in certain geographic areas;
- Following the annual independent valuations, carrying values of the remaining security properties have continued to be written down significantly;
- Bentleys (the Court appointed administrator) has continued to sell security properties of the Summit Mortgage Fund, with a distribution paid to the Fund in December 2012. Following reconciliation and decision on evaluation of necessary payments and costs by Equity Trustees (EQT), a distribution was approved and paid to Accumulation Illiquid Strategy members via a transfer of assets to the Liquid Conservative Strategy, made in July 2013. A further distribution is expected in late 2013 from Bentleys to the Fund.
- Although Bentleys have disposed of further security properties over which mortgage investments are held, (approximately 25% of Illiquid assets) proceeds continue to be retained to meet costs and to assist litigation against valuers and auditors to Summit Mortgage Fund
- Since 1 July 2013, further sales have been completed and settlement proceeds paid to Progress Super. 5 December, 2013

The Illiquid Investment Strategy update should be read in conjunction with the Member Update of June 2013, and Illiquid Investment Strategy update of December 2012.

Further Information

If you have any queries about the information sent, please do not hesitate to contact Progress Member Services on 1300 880 736.

Yours sincerely,

Matthew Vial
General Manager
Diversa Superannuation Services

Bill Hodges
Manager, Superannuation
Superannuation Trustee Services
Equity Trustees Limited
Introduction

The main focus for the Illiquid Strategies continues to be to work progressively with mortgage fund managers to dispose of the Fund’s mortgage security investments in a property environment which, while it has improved in capital cities, continues to be a challenging property market in Queensland. This Update provides further information about the:

- 30 June 2013 position of Illiquid Assets
- detailed break-up of mortgage security investments that comprise the illiquid portfolios; and
- efforts undertaken during the last 12 months to progress realisation of the illiquid mortgage security investments;

Illiquid assets at 30 June 2013 continued to comprise cash, term deposits and a portfolio of mortgage security investments - the majority of which are held through unlisted managed investment schemes, and a small number being held directly.

Income continues to be earned on the cash, term deposits and one income producing mortgage security (being a hotel property) making irregular, ad hoc payments. No other rental or interest income is received.

Necessary payments made from cash include pension payments, death benefit payments, legal expenses, regulatory payments and the costs of running the Illiquid Investment Strategies.

Illiquid Strategies - Asset Allocation

Cash and term deposits held in the Illiquid Investment Strategies as at 30 June 2013 totalled $4.518m. At this stage, these monies are held by the illiquid investment strategies to ensure liquidity requirements can be met over the coming years.

These liquidity requirements include pension payments (approximately $2.5m per annum), a provision for death benefit payments and other mandatory costs which must be met by the Illiquid Strategies. Chart 1 below shows the Asset Allocation breakup of the Illiquid Investment Strategies at 30 June 2013.

Chart 1
Illiquid Mortgage Security Portfolio Overview

As at the 30 June, 2013, the number of mortgage security investments held (directly and via managed investment schemes) by the Illiquid Investment Strategies totalled eighteen (18), with a total carrying book value of $10 m. All of these mortgage securities are currently in default - meaning that either the repayment of the principal is overdue, interest payments are not being made or both.

The majority of these illiquid Investment Strategies investments are held via mortgage managed investment schemes. In most instances, the illiquid Investment Strategies are only one of a number of investors in each mortgage, therefore the Trustee and Investment Manager need to work with each respective Mortgage Manager to achieve an ‘at best’ outcome for members. Ultimately however, the Mortgage Manager has full discretion as to how and when a security property asset and mortgage is realised.

All loans, in which the Illiquid Investment Strategies have an interest, have been secured against real property and/or land. All remaining assets are located over various locations in Queensland, stretching from the Gold Coast to as far north as Port Douglas.

Table 1 below provides a break up of the mortgage securities controlled by the various Mortgage Managers and the Illiquid Investment Strategies as well as the total book carrying value as at 30 June 2013.

Table 1

<table>
<thead>
<tr>
<th>Mortgage Fund / Mortgagee</th>
<th>Number of Mortgage Security Investments</th>
<th>Book Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summit Mortgage Fund (Court Appointed Administrator)</td>
<td>12</td>
<td>$3.589 m</td>
</tr>
<tr>
<td>Securcorp Mortgage Income Scheme</td>
<td>2</td>
<td>$0.000 m</td>
</tr>
<tr>
<td>Assured Mortgage Fund</td>
<td>1</td>
<td>$1.362 m</td>
</tr>
<tr>
<td>Master Mortgage Fund No.6</td>
<td>1</td>
<td>$0.936 m</td>
</tr>
<tr>
<td>Fund direct and Joint Mortgagee (Momentum Mortgages)</td>
<td>2</td>
<td>$4.113 m</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>18</td>
<td><strong>$10.000 m</strong></td>
</tr>
</tbody>
</table>

Prior to 30 June 2013, one managed investment scheme, Summit Mortgage Fund (SMF), continued to hold substantial holdings of remaining mortgage security investments that the Illiquid Investment Strategies have an interest in. This scheme has been under the control of a Court Appointed Administrator (Bentleys Corporate Recovery Pty Ltd) since 19 June 2008.

In addition to the mortgage security investments in the Illiquid Investment Strategies, the Illiquid Investment Strategies also hold an investment in the Pacific First Mortgage Fund.

From the time that the last mortgage security investment was advanced by the Fund in 2007, the number of mortgage security investments has reduced significantly.

Table 2 below provides details.
Table 2

<table>
<thead>
<tr>
<th>Financial Year Ended</th>
<th>Number of Mortgages</th>
<th>Book Value of Mortgages</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2008</td>
<td>43</td>
<td>$109m</td>
</tr>
<tr>
<td>30 June 2009</td>
<td>30</td>
<td>$82m</td>
</tr>
<tr>
<td>30 June 2010</td>
<td>26</td>
<td>$50m</td>
</tr>
<tr>
<td>30 June 2011</td>
<td>24</td>
<td>$34m</td>
</tr>
<tr>
<td>30 June 2012</td>
<td>24</td>
<td>$23m</td>
</tr>
<tr>
<td>30 June 2013</td>
<td>18</td>
<td>$10m</td>
</tr>
</tbody>
</table>

Note: A number of property settlements and mortgages have continued to reduce the overall number of mortgage security investments significantly in the year ended 30 June 2013.

The remaining number of mortgage security investments held, are secured over property that is more complex in nature, which continues to make disposal of them a difficult task, particularly in the Queensland property market.

Illicit Investment Strategy assets held in detail

This section provides information on each segment of the Illicit Investment Strategy portfolio of assets. Please note that due to commercial sensitivities, we are unable to provide information regarding individual carrying values.

1. Summit Mortgage Fund (SMF) - ARSN 090 119 592

As mentioned in the overview, Bentleys Corporate Recovery Pty Ltd (Bentleys) is the Court Appointed Administrator of SMF and has been appointed since June 2008. The Illicit Investment Strategies had 12 mortgage security investments in SMF totaling $11.397m and held priority for payment (senior debt position) on these investments.

Information about the progress of the Administration of the Summit Mortgage Fund and the actions that Bentleys is taking to obtain resolution and wind-up of SMF can be found on their website at: [http://www.bentleys.com.au](http://www.bentleys.com.au).

In order to access the information you will need to select “Creditor Info” from the menu and agree to the terms of access. Under “Find Creditor Information” select “Brisbane” as the State and “Summit Mortgage Fund” as the company. Here you will find a range of documents in date order prepared by Bentleys. The last update was on 13 November, 2013.

Bentleys has continued to sell down assets of SMF. Based on sales settlements achieved during 2013, a partial distribution was made to Progress Super, however a significant proportion of these funds were retained by Bentleys. Bentleys have indicated that these monies have been retained to fund costs and litigation against, in particular valuers, accountants and auditors to SMF, to attempt to recoup further monies on behalf of investors. Bentleys’ costs include their administration fees, legal fees and other property costs that are determined as deemed necessary.

A number of properties have also been sold down by Bentleys’ during the financial year ended 30 June 2013; and a further partial distribution is expected to be paid to the Fund before the end of the calendar year 2013.

Table 3 provides a list of the mortgage security investments in SMF that the Illicit Investment Strategies have an interest in as at 30 June 2013, and movement of the property assets and impact on the mortgage security investments held by the Fund to 30 June 2013.
### Table 3

<table>
<thead>
<tr>
<th>Accumulation Illiquid</th>
<th>Movement</th>
<th>Pension Illiquid</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bedroff, Ford Street - Coomera, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
<td>Bedroff, Ford Street - Coomera, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
</tr>
<tr>
<td>Bedroff, Hansen Court - Coomera, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
<td>Bedroff, Hansen Court - Coomera, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
</tr>
<tr>
<td>Black Amber, Mango - Hinchinbrook, QLD</td>
<td>Held - Not sold</td>
<td>Black Amber, Mango - Hinchinbrook, QLD</td>
<td>Held - Not sold</td>
</tr>
<tr>
<td>Dunes - Agnes Waters, QLD</td>
<td>Being sold down - Nil proceeds</td>
<td>Black Amber, The Point - Hinchinbrook, QLD*</td>
<td>Sold - Partial distribution received</td>
</tr>
<tr>
<td>Mayaman - Agnes Waters, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
<td>Mayaman - Agnes Waters, QLD #</td>
<td>Sold - Monies retained by Bentleys</td>
</tr>
<tr>
<td>Oxford Crest 3, Aged Care - Brisbane, QLD</td>
<td>Partially sold - Monies held by Bentleys</td>
<td>Heritage Lodge - Toowoomba, QLD #</td>
<td>Sold - Partial distribution received</td>
</tr>
<tr>
<td>Platinum - Caloundra, QLD #</td>
<td>Sold - Partial distribution received</td>
<td>Platinum-Caloundra, QLD #</td>
<td>Sold - Partial distribution received</td>
</tr>
<tr>
<td>Strathpine Lodge, Brisbane, QLD #</td>
<td>Sold - Partial distribution received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wayville - Adelaide, SA *</td>
<td>Sold 2009 - Partial distribution received</td>
<td>Wayville - Adelaide, SA *</td>
<td>Sold 2009 - Partial distribution received</td>
</tr>
</tbody>
</table>

**Notes:**
- A further distribution for Bedroff, Mayaman, Platinum, Strathpine and Wayville is expected before December 2013.
- * - Indicates properties (2 in total) that were sold and settled in 2009 and a partial distribution of $306,941 has been received. Bentleys have retained the outstanding balance of settlement monies.
- # - Indicates properties which have been sold and settled by Bentleys since 2012, with gross sale proceeds of more than $17 million. The table also shows those where sale proceeds have been retained by Bentleys, and where proceeds have been received by the Fund, or where a partial distribution is expected in late 2013.
- At present the Illiquid Investment Strategies written down valuation at 30 June 2013 on the mortgage securities above is $3,588,889. A number of the properties are retained in the accounts of Progress Super with a zero carrying book value, while we await any possible final distributions to be paid by Bentleys’. The asset Wayville, Adelaide, SA provides an example of this.

**Remaining SMF Investment Assets held**

With regard to the unsold SMF mortgage security investments the Illiquid Investment Strategies have an interest in:
- Black Amber - Mango is located in Port Hinchinbrook where the market remains very difficult
- Tilgonda is located in the Toowoomba area and comprise sub-divisible blocks of land suitable for residential development. These continue to be marketed, however demand is low.
**Bentley’s ongoing costs**

As Bentleys continue to incur significant “General Costs” that are apportioned to all SMF investors, the Trustee has determined to continued its conservative approach, and a significant monthly provision (valuation write-down against asset valuations) continues to be applied against the illiquid Investment Strategies’ book value of SMF investments. This (write-down) provision is required under accounting and superannuation rules to ensure that the benefit values quoted to members accurately reflect the net market value of the illiquid Investment Strategies assets.

At present this monthly provision is in the order of $345,414. This cost provision is applied against the valuation of Illiquid Investment Strategies assets, with revised written down valuations reflected in the crediting rate applied to member account balances each month.

Although a further partial distribution is expected to be made to the Fund before the end of the calendar year 2013, we do not expect that a final distribution on all mortgage security investments will be paid by Bentleys until all properties are sold and the administration of SMF finalised. This could still take some years.

2. **Securcorp Mortgage Income Scheme (SMIS) - ARSN 090 045 382**

The Illiquid Investment Strategies received proceeds totaling $2.345 mill. from the sale and finalisation of four (4) mortgage security investments in the Securcorp Mortgage Income Scheme (SMIS) for the year ending 30 June 2013. As at the 30 June 2013 there are only two remaining mortgage security investments. Table 4 below provides a list of these mortgage security investments that the Illiquid Investment Strategies continue to have an interest in:

<table>
<thead>
<tr>
<th>Accumulation Illiquid</th>
<th>Book Value</th>
<th>Pension Illiquid</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Altitude Tower, Townsville, QLD</td>
<td>• Nil</td>
<td>• Altitude, Townsville, QLD</td>
<td>• Nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• LPI Whitsundays, Airlie Beach, QLD</td>
<td>• Nil</td>
</tr>
</tbody>
</table>

With regard to the mortgage security investments currently held with SMIS, the Trustee has recently been advised of the following update:

- **Altitude Towers - Townsville** - The majority of residential units in this property have been sold, and commercial space remains on the market. The Mortgage Manager has advised that due to continuing poor market conditions, the Funds remaining equity has now diminished to the point that a NIL return is expected. Book Value as at 30 June 2013 for Conservative Accumulation and Conservative Pension has been amended to Nil. Security will continue to be reflected in the books at Nil value until confirmation is received that sale of the property is complete, and final details are available.

- **LPI Whitsundays, Airlie Beach** - The Illiquid Investment Strategies have a subordinate position to other investors. This property comprises of land suitable for subdividing into blocks of land for residential development. The property continues to be marketed; however demand is low due to the current market in North Queensland. The Mortgage Manager has advised that due to continuing poor market conditions, the funds remaining equity has now diminished to the point that NIL return is expected. Security will continue to be reflected in the books at Nil until confirmation is received that sale of the property is complete, and final details are to hand.

**Note:** The Trustee of the Fund did not advance any additional funding for the Altitude and LPI Whitsunday investments, resulting in the Illiquid Investment Strategies security position being subordinated by priority investors.

3. Assured Mortgage Fund (AMF) - ARSN 089 809 067

The Illiquid Investment Strategies only has an interest in one investment in this fund at this date. The Illiquid Investment Strategies hold a priority debt position over the mortgage security in AMF. The current position is as follows:

- Genesis Property Group - Redcliffe - The Illiquid Investment Strategies held a mortgage security investment over this residential development site in metropolitan Brisbane. This property was sold and settled in 2012 with funds of $733,365 being received.

- Pacific Vista Developments Pty Limited - Maryborough - The Illiquid Investment Strategies hold a mortgage security investment over a large sub-divisible block of land situated within a developing residential precinct located at Tinana, west of Maryborough. Negotiations were entered into with AMF to have its mortgage of $100,000 written off and the mortgage transferred to Progress Super. However negotiations have stalled and AMF has now been requested to seek proposals from real estate agents to market the property. The investment is held in the Pension Illiquid Strategy, and as at 30 September has a carrying book value of $1,361,745.

Further information about Assured Management (the Mortgage Manager) and the AMF itself can be found at: www.assuredm.com.au

4. Master Mortgage Fund No. 6 - ARSN 114 364 886

The Illiquid Investment Strategies interest in this mortgage fund comprises a mortgage security investment advance to Seasilver Hotels Pty Ltd. Seasilver Hotels Pty Ltd operates the “Holiday Inn Surfers Paradise”, in which this mortgage fund holds a priority mortgage security over 10 strata title hotel suites.

In total, the building contains 410 apartments which are now controlled by five mortgagees, including Progress Super, since the owner went into default on the mortgage securities. Currently, hotel occupancy rental income is covering outgoings and management fees; however nil interest has been paid on the mortgage security investment for the financial year ending 30 June 2013. The investment is held in the Pension Illiquid Strategy, and as at 30 September, 2013 has a carrying book value of $936,323.

Sales continue to be slow for this type of property, and market demand remains low on the Gold Coast. However, the Mortgage Manager, Guardian Securities, has been instructed to investigate the possibility of marketing some of the units early in 2014.

Further information about Guardian Securities and the Master Mortgage No.6 itself can be found at www.guardiansecurities.com.au.

5. Fund direct Mortgagee in Possession and Joint Mortgagee in Possession holdings

As at 30 June 2012, there were two remaining properties where the Trustee of the Illiquid Investment Strategies, was either the Mortgagee in Possession, or Joint Mortgagee in Possession. The current positions are as follows:-

- Ryde Road - Pymble. A three level commercial building, which was 50% complete, this property was sold at auction, with contracts exchanged on 28 June 2013 and settlement on 15 August 2013, for a total value of $1,814,960.23.

- ‘Escape’ Port Douglas - The Illiquid Investment Strategy holds joint 1st mortgagee position, and legal action is progressing against the development company and its directors. The majority of subdivision works are complete. As well, in November 2010, an extension of the current development application was granted by the local Council until 21 January 2016. Also, an application to Council is open for consideration to amend the development application (DA) to
allow blocks of land to be sold individually, and not under a “House & Land” package requirement as per the current DA.

Joint Mortgagee, Momentum Mortgages is now back in receivership. Receiver McGrath Nicol have advised they intend to sell Momentum’s 50% share of the mortgage, however to date have failed to locate a buyer.

The real estate market in the region remains stagnant and local agents recommend holding the property for the medium term to obtain a better outcome. Carrying book value as at 30 September 2013 for the Illiquid Accumulation Strategy is $2,358,000.

- ‘Lifestyle’ Townsville - This property was held in the Illiquid Investment Strategy as at 30 June 2012. Property has now been sold down by the priority mortgagee and no further funds are available to the Fund from the sale.

6. **Pacific First Mortgage Fund - ARSN 008 139 477**

The position of the Pacific First Mortgage Fund (PFMF), previously known as the City Pacific First Mortgage Fund, remains unchanged.

The Fund currently holds 4,773,320 units in PFMF. In adopting a conservative approach, this investment’s carrying book value was written down to nil in 2009 due to the PFMFs inability to sell assets, pay redemptions to unit holders and the uncertainty of the amount and timing of distributions.