

Welcome to the Investor Update for the Premium Income Fund. Investor Updates will be mailed to Unitholders every four months, for the periods ending April, August and December.

These updates will include a restatement of information released to the market by way of NSX releases made in the period to assist the Fund's many Unitholders who do not have internet or email access.

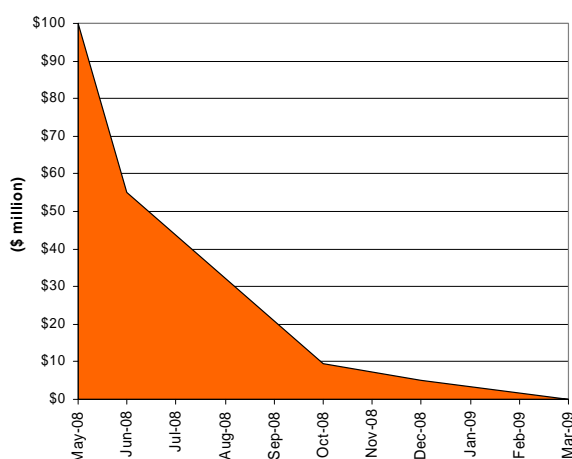
### Key events – January to April 2009:

- Repayment of finance facility completed on 23 March 2009. The Fund is now debt free.
- Release of half yearly financial report as at 31 December 2008, confirming that the net asset backing of a unit in the Fund remains at 44 cents per unit.
- Receivers and managers appointed in relation to loan security at Creswick, Victoria.
- Sales campaign conducted for 11 of the underlying security assets in the Fund's possession commenced on 4 April 2009.

### Debt Reduction

Full payment of the Fund's debt facility has now occurred. The debt has been fully repaid through asset realisations in an extremely difficult economic environment.

Notwithstanding the scarcity of buyers and investment capital, the Fund has been able to maintain its net asset backing at 44 cents per unit.



Debt reduction 2 May 2008 to 23 March 2009

### Structure and Strategy

The Fund is now mortgagee in possession of a number of properties across the Eastern seaboard. The properties range from vacant land to nearly completed multi-storey hotel and residential towers. Strategies are being progressively formulated and implemented, aimed at realising those assets at the maximum possible value, in the context of the changing dynamics within the property and finance markets.

#### What is the strategy?

A number of the security properties will be assets that the Fund must by necessity retain for at least the medium term. Where this is not the case, those assets have been earmarked for disposal or alternative treatment, as appropriate with reference to the particular characteristics of each asset.

The broad model is to assess the individual assets in respect of the highest and best use outcome for each. This assessment takes into account the full range of alternative uses in the context of present market conditions, prospects for fundamental improvement in the relevant geographic or market segment, and the level of interest and quality of potential development partners.

The Fund's intention in relation to certain assets is to introduce experienced and proven developers to the property to enable the asset to be completed with a view to achieving the highest possible net asset value for the Fund. This is an investment strategy that will have a three to five year horizon and the magnitude of its success will be largely dependant on a gradual recovery of the property market.

Detailed discussions have occurred with a range of interested parties in relation to all assets within the portfolio. This process has given the Fund's management team a clear set of alternatives for the key properties in possession. The aim is to reposition properties appropriately for the next cycle in a way that maximises the return to Unitholders.

Obviously, the timing of improvement in the property cycle is inherently uncertain and not something that the Fund can predict at this time. However, the Fund is well placed to take advantage of market recovery when it occurs.

#### Proposed asset realisations

The Fund has become mortgagee in possession in relation to many of the assets provided as security for the Fund's commercial loan portfolio. These assets are appropriately secured and maintained pending disposal or development.

A sales campaign commenced on 4 April 2009 and has seen 11 of the security properties in the Fund's possession taken to market by nationally recognised agents Jones Lang LaSalle, Ray White, and Colliers International.



The aim of this marketing campaign is to stimulate Fund cash flow through the selective realisation of appropriate properties in possession. The Fund will not accept less than market value for any property and will manage the sales process with an eye to maximising the pre-distribution net asset value of the Fund.

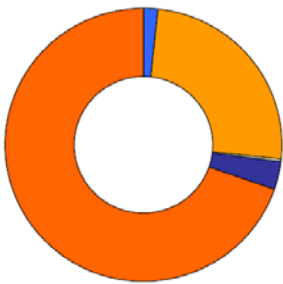
Details of unconditional contracts resulting from this program will be disclosed to the market via NSX releases.

### Cash Payments

The Board is very conscious of, and concerned about, the economic hardship that the Fund's current position is causing for Unitholders.

Any cash payment to Unitholders is dependent on finalising further asset sales, and as a consequence, the timing of the proposed cash distribution to Unitholders remains uncertain. The Board remains committed to making this cash payment as soon as the Fund is in a position to do so.

### Fund Asset Allocation as at 31 December 2008



Mortgage Loans	69.7%
Managed Investment Schemes	1.6%
Alternative Investments	25.0%
Cash Investments	0.4%
Fixed Interest Investments	3.3%

While asset allocations generally remain within the ranges forecast within the last PDS, the rapid realisations necessary to discharge debt have moved each class away from the forecast target allocation. Wellington is working to rebalance the portfolio in a systematic and progressive manner.

In summary, all asset classes continue to perform within the Fund's range of expectations.

### Mortgage Loan Portfolio

The Fund has become 'mortgagee in possession' of the underlying property security in all but five instances within this portfolio. Two further properties are being managed by liquidators. Three loans remain subject to refinance negotiations.

#### Creswick, Victoria

On 1 April 2009, the Fund appointed insolvency experts KordaMentha as Receiver and Manager of the business underlying this loan.

The business is known as the Forest Resort and is located in the goldfields district of Central Victoria, about 10 minutes from Ballarat and 90 minutes from Melbourne. The resort is a 4.5 tar rural retreat encompassing an 18 hole championship golf course.

The Resort opened in March 2008 and has operated successfully during its first year of business. The Resort was the winner of the 2008 Victorian Tourism Awards for the Best New Tourism Development.

The Fund intends to continue to operate this business in order to build upon the ultimate asset value of the Resort.



The security property also encompasses a residential development surrounding the golf course.

The Fund will facilitate completion of this development and realise the resultant lots as soon as possible in order to maximise the Fund's return from this loan.



### Novotel Forest Resort – Special Offer

- For Unitholders wishing to see this asset up close, Wellington has negotiated a special deal at Forest Resort, Creswick.
- Unitholders are able to stay at Forest Resort, named Victoria's Best New Tourism Development 2008 for the special rate of \$119.00 per night in a Superior King Room, including breakfast for 2 people. In addition, Unitholders are able to access a special golf rate of \$20 for 18 holes.
- Please contact the Forest Resort, Creswick on 03 5345 9600 or at [www.novotel.forestresort.com.au](http://www.novotel.forestresort.com.au) and state that you wish to make a booking under the Premium Income Fund promotion.
- This offer is available for bookings made by 31 August 2009.

### Asset Realisations

Set out below is a table showing the asset by asset realisation estimates from 2 May 2008 to 30 April 2009 and the actual proceeds received for assets sold or refinanced during this period.

The Fund realisations during this period are on target in terms of estimated realisable values. The net asset backing of a unit remains at 44 cents per unit.



	Estimated Realisable Value	Actual Realisation
<b>Mortgages</b>		
Blacktown NSW	\$1.8 million	\$1.8 million
Brooklyn West VIC	\$0.5 million	\$0.549 million
Creswick VIC (partial sale of underlying assets)	\$2.434 million	\$2.434 million
Hastings Point NSW (refinance)	\$14 million	\$12.659 million
Narrabeen NSW (exercise of mortgagee's power of sale)	\$1.8 million	\$1.5 million
Seddon, Victoria (exercise of mortgagee's power of sale)	\$8.5 million	\$8.5 million
St Leonards NSW	\$8 million	\$8 million
Sylvania NSW	\$19.682 million	\$20.018 million
<b>Asset Backed Securities/Alternative Investments</b>		
Sydney based company (partial realisation of underlying assets)	\$2 million	\$2 million
Living and Leisure Australia Trust loan (partial realisation)	\$10 million	\$10 million
Diversified Trust	\$10.084 million	\$10.2 million
World of Learning	\$5 million	\$2.5 million
Property Fund	\$17 million	\$17 million
Property Fund	\$13 million	\$13 million
Cash	\$15.417 million	\$15.417 million
<b>Total</b>	<b>\$118.917 million</b>	<b>\$115.577 million</b>

## Raptis Group

The Fund has exposure to Raptis Group Limited (ASX:RPG) through direct loans to subsidiaries of Raptis Group Limited.

As set out in the Fund's Explanatory Memorandum dated 18 August 2008, the total outstanding balance on the three loans as at 31 May 2008 was \$52,608,301.

## Mortgage loans

The Fund is mortgagee in possession of property securing two loans to Raptis subsidiaries where the Fund has a registered first ranking mortgage in both instances.

## Alternative investments

The Fund is in discussions with the first mortgagee in relation to the Fund's asset backed security loan. The Fund has a second ranking mortgage over this property. External marketing has

been undertaken in relation to the underlying asset by the Raptis Group Limited.

## Insurance Update – Lloyds of London

Octaviar Investment Management Limited arranged insurance through Lloyd's Underwriters to cover certain commercial loans in the mortgage portfolio of the Premium Income Fund. The responsible entity was of the view that not all loan facilities required insurance cover for example, vacant land loan facilities.

The insurance policy only covers the circumstance where the Fund becomes mortgagee in possession, exercises the mortgagee's power of sale and a loss against the insured loan principal is sustained. The insurance policy does not cover loans where a loss is sustained by the Fund because of refinancing or a change in the terms of the loan agreement between the Fund and the borrower.

Claims were able to be made under this policy until 11 April 2009. The policy has been unable to be altered since April 2008 and cannot be renewed. The following table outlines realisations conducted by the Fund since 2 May 2008:

Property	Insured value	Eligible to claim	Possible claim on policy
Sylvania NSW	Nil	No, not insured.	Nil
Hastings Point NSW	\$13.084 million	No, refinance of borrower.	Nil
Brooklyn West VIC	\$0.802 million	No, refinance of borrower.	Nil
Narrabeen NSW	\$1.893 million	Yes, loss suffered by Fund after mortgagee in possession sale of secured property supporting loan.	\$393,000
Blacktown NSW	\$2.32 million	Yes, loss suffered by Fund after mortgagee in possession sale of secured property supporting loan.	\$52,000
St Leonards NSW	\$8.115 million	No, legal settlement with borrower.	Nil
Seddon VIC	\$7.875 million	No, sold at premium of \$625,000 over insured value	Nil
<b>Total possible claim on Lloyds insurance policy:</b>			<b>\$445,000</b>

The Fund could possibly make a total claim for the loss of \$445,000 under the Lloyds policy. In order to make this claim, the Fund would have to pay \$1,233,258 in premiums.

The Board has decided that it is in the best interests of the Fund to make no claim under the policy.



## Octaviar Limited – Supreme Court Proceedings

On 6 March 2009, McMurdo J in the Supreme Court of Queensland handed down judgement in relation to part of the applications filed by the Public Trustee of Queensland.

Each application seeks the termination of the Deed of Company Arrangement for Octaviar Limited and Octaviar Administration Pty Ltd, which creditors voted in favour of on 17 December 2008.

On 2 and 3 March 2009 McMurdo J heard arguments from the parties in relation to the specific point of the validity of the Fortress Credit Corporation (Australia) II Pty Ltd ('Fortress') security. McMurdo J has ruled that the Fortress security is void as a security on Octaviar Limited. Fortress has lodged an appeal against this decision.

The remainder of the 19 February 2009 applications were heard over 7 days from 5 May 2009 to 13 May 2009. The Premium Income Fund is a Respondent to each of these proceedings, together with the other major creditors of Octaviar Limited and Octaviar Administration Pty Ltd.

At the time of this update, no judgement has been handed down as a result of the May 2009 hearing.

The outcome of the legal disputes will affect the manner in which Octaviar Limited and Octaviar Administration Pty Ltd operate into the future and the potential timing of any payments from these companies to creditors, including the Premium Income Fund.

## Bond Street Custodians – Federal Court Proceedings

This matter has been set down for hearing in the Federal Court of Australia in February 2010.

## Mercedes Holdings Pty Limited & Ors v Wellington Investment Management Limited & Ors – Class Action

Wellington Investment Management Limited as the former responsible entity of the Premium Income Fund has been named as a Respondent in the class action filed on behalf of Fund Unitholders. A directions hearing is to be held on 23 June 2009.

An update will be provided to Unitholders as to the impact of the class action on the Fund as soon as the Fund is in a position to do so.

## Investor Advisory Committee

Nominations for the Fund Investment Advisory Committee closed on 27 March 2009. Included with the mailed copy of this Investor Update is a schedule of the nominees, and a personalised voting form.

**Voting forms must be returned by 30 June 2009.**

## How will the vote be conducted?

Each Unitholder is eligible to vote for the three Unitholders they wish to nominate for the committee. The three Unitholders with the highest number of votes will be invited to be appointed to the

committee. The vote will be conducted in the same way as the proxy count was conducted for the 2008 EGM. Each Unitholder vote will depend on the number of units held by the particular Unitholder.

## What is the role of the Investor Advisory Committee?

The purpose of the Investor Advisory Committee is to ensure investor input into the decision making process of the Fund. Members of the committee will have an opportunity to discuss current issues with the Board and management team and the outcome of each committee meeting will be provided to all Unitholders in the following Investor Update.

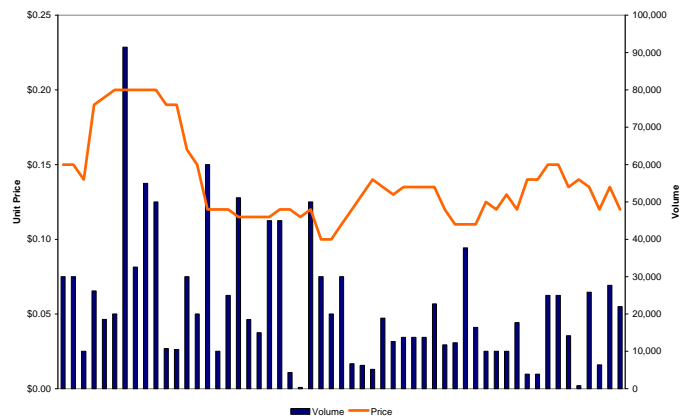
## National Stock Exchange Update

Trading in the Premium Income Fund (NSX:PIN) commenced on 16 October 2008.

A summary of trading activity from 1 January 2009 to 30 April 2009 is set out below:

High	Low	Volume (01/01/2009 – 30/04/2009)
20 cents	10 cents	1,912,314

## Trading summary (NSX:PIN) 1 January 2009 to 30 April 2009



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Premium Income Fund

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