

Bookmakers Super Fund Update

October 2009

The Global Financial Crisis (GFC) has impacted investors across the globe, including members of Australian superannuation funds and other investment vehicles. While BSF carries no debt, it does invest in assets that have not been immune to the effects of the GFC. The following information has been prepared to update members on recent issues concerning the fund.

Some Investment background

The Balanced Accumulation Investment Strategy and Balanced Pension Investment Strategy of the BSF has historically invested in a broad range of assets, including Fixed Interest investments, such as mortgage funds and first registered mortgage loans with property as the underlying security.

Whilst some loans have been negotiated directly with the borrower, most have been acquired through managed investment schemes. This means that the Responsible Entity or mortgage originator sources the potential borrower and carries out due diligence on all aspects of the proposition (loan).

Prior to the unusual circumstances of the GFC, these investments have proven very successful for the Fund and contributed to BSF's outstanding returns over the past decade.

What has happened?

The worldwide credit crunch and ensuing Global Financial Crisis have contributed to some mortgage loans within the BSF Balanced Investment Strategies being affected, that is, the borrowers have stopped paying interest, or the loan has matured and the borrower has not repaid the principal (but in many cases continues to pay interest).

Due to accounting requirements, we have had to reduce the 'book value' of a number of these mortgages loans prior to the end of the 2009 financial year.

The affected assets have impacted the overall liquidity of the Balanced Investment Strategies of the BSF causing the Trustee, in August 2009, to temporarily defer the processing of investment switch requests from the Balanced Accumulation Investment Strategy and Balanced Pension Investment Strategy of the BSF.

The Trustee has also applied to the government superannuation regulator, Australian Prudential Regulation Authority (APRA), to defer the processing of rollovers and transfers from the Balanced Accumulation Investment Strategy and Balanced Pension Investment Strategy of the BSF for a rolling ninety (90) day period from the date redemption requests are normally processed.

Pending receipt of APRA's decision, the Trustee decided to defer the processing of redemption requests (unless members meet a condition of release which almost all Pension members do) from the Balanced Investment Strategies.

This measure seeks to ensure equity amongst BSF members who are invested in the Balanced Investment Strategies by allowing additional time for the BSF Investment Manager to realise on the affected assets, that is, avoid having to sell these assets on a "fire-sale" basis.

Impact of Affected Assets on BSF

Like many superannuation funds, BSF's investments in equities and property (direct and property backed mortgages) were revalued down as a result of the worldwide credit crunch and ensuing GFC. This has resulted in negative Balanced Accumulation Investment Strategy and Balanced Pension Investment Strategy returns in the most recent fund year. This contrasts with the Conservative Investment Strategies which continued to deliver market leading returns as its investment strategy did not have exposure to these growth assets. The compound annual percentage returns of both the Balanced and Conservative Investment Strategies are listed below over a variety of time periods with comparisons to Benchmark industry median performance and against our stated investment objectives – CPI plus 2% for the Balanced Investment Strategies and the Commonwealth government's 10-year Bond rate for the Conservative Investment Strategies.

Annual Investment Returns at 30 June 2009 – Balanced Investment Strategies

	Balanced Accumulation Actual	Balanced Accumulation Industry Benchmark*	Target Investment Return – CPI + 2%	Balanced Pension Actual	Balanced Pension Investment Strategy Industry Benchmark*	Target Investment Return – CPI + 2%
Life of Fund	10.74%	N/A	7.6%	8.87%	N/A	7.6%
10 year	7.10%	5.2%	5.2%	8.56%	4.9%	5.2%
5 year	2.37%	3.6%	4.9%	5.24%	4.1%	4.9%
3 year	(6.00%)	(2.5%)	5%	(3.45%)	(2.4%)	5.0%
1 year	(16.74%)	(13.0%)	2.4%	(15.87%)	(13.5%)	2.4%

- Selecting Super Performance Tables to 30 June 2009

Annual Investment Returns at 30 June 2009 – Conservative Investment Strategies

	Conservative Accumulation Actual	Conservative Accumulation Industry Benchmark**	Target Investment Return - 10-year Bond Yield	Conservative Pension Actual	Conservative Pension Industry Benchmark**	Target Investment Return - 10-year Bond Yield
Life of Fund	6.3%	2.5%	5.0%	5.8%	2.5%	5.0%
10 year	N/A	N/A	N/A	N/A	N/A	N/A
5 year	N/A	N/A	N/A	N/A	N/A	N/A
3 year	N/A	N/A	N/A	N/A	N/A	N/A
1 year	6.3%	2.5%	5.0%	5.8%	2.5%	5.0%

- Selecting Super Performance Tables to 30 June 2009

Pleasingly, over recent months, the worlds' economies appear to be stabilising with equity markets reversing in part last year's significant losses. Investment returns since 30 June in the Balanced and Conservative Investment Strategies for recent months were as follows:

	Balanced Accumulation Monthly% return	Balanced Pension Monthly% return	Conservative Accumulation Monthly% return	Conservative Pension Monthly% return
July 2009	1.541%	1.938%	0.446%	0.509%
August 2009	1.966%	2.657%	0.1768%	0.206%
September 2009	2.251%	2.762%	0.486%	0.545%
October 2009	- 1.287%	-0.799%	0.416%	0.471%

It is also important to note that while the last 2 fund years have produced negative Balanced Investment Strategy returns for BSF and other super funds, BSF's underlying investment strategy over a 10 year and Life of Fund basis has materially outperformed our stated investment objective and the median market benchmark.

We do however recognise that the current situation requires special attention. BSF and its promoters/administrators/investment manager/trustee have been and will continue to work proactively to address the situation and return as much asset value as possible to members. The recent purchase by Diversa Ltd of the Super Promoters business has seen the introduction of additional specialist resources and capabilities, further bolstering the BSF efforts to rapidly but prudently address the affected assets.

The fund's Investment Manager expects these mortgage-related matters to be resolved over the coming 12 months.

What is being done?

Mortgage manager appointed

Earlier this year the BSF introduced a mortgage manager to assist the fund's Investment Manager, Joseph Palmer & Sons to manage the mortgage loan portfolio. His brief is to:

- Maintain communication with all of the active mortgage originators and managers who manage loans on behalf of the fund;
- Take all steps possible to ensure that positive progress is being made by Bentleys MRI (Scheme Administrators appointed to Secured Mortgage Management Limited (SMML) which is in voluntary liquidation and through which BSF invested to acquire exposure to a number of mortgage loans; and
- Maximise the return from all of the BSF mortgage investments.

The steps he is taking include:

- Seeking refinancing arrangements for borrowers;
- Recommending where the Trustee can take possession of the underlying assets of mortgages in default; and
- Assist the Trustee in arranging an orderly sale of assets to achieve a maximum return.

What has been achieved?

Progress has been made on various fronts to secure value from the affected loans and achieve a good resolution for members:

Developments in possession

The Trustee on behalf of BSF has taken possession of three substantial property developments with the view to progressing the assets for members. These property developments include a block of three nearly completed luxury houses in Rose Bay (Sydney, NSW), a partially complete office block in Pymble (Sydney, NSW), and a development of 30 building blocks of land in Port Douglas (North Queensland).

- A quantity surveyor was retained and assessed the cost to complete the Rose Bay building. Diversa secured external funding (not BSF money) to complete the building works. A builder has been engaged, with one property near complete, expecting to be put on the market before Christmas. Work is progressing well on the other 2 properties. We expect the sales will recover the loan amount.
- A quantity surveyor has assessed the Pymble property and valuations obtained for a sale "as is", and also "as if complete." Realisation of the asset is now expected to be in line with current book value. Action is also being considered against the Directors and Guarantors of this project.
- The sale of the blocks of land at Port Douglas either individually or in one line, is now being assessed.
- There have also been a number of mortgages discharged over the past several months and these discharges will continue.

SMML Mortgages

The book value of the SMML mortgages has been reviewed and written down based on information to hand.

We are currently negotiating with Bentleys MRI to take possession from them of the two properties in which the BSF has a 100% interest, with a view to managing their sale.

In the meantime, Bentleys have put some of the SMML properties to tender and others to auction. The progress has unfortunately, been slow.

When will things be resolved?

The Investment Manager of BSF expects these property-related matters to be resolved over the coming 12 months.

Conclusion

The BSF has a proud history of providing market leading investment returns to members over the longer term. The past year has been a difficult one for all investors with the GFC adversely impacting all investment vehicles and Australian superannuation funds to varying degrees.

The BSF has made significant adjustments to the book values of the mortgage loans held within the Balanced Investment Strategies. BSF has also taken a conservative approach with some expectation that when the underlying assets are sold, the proceeds will exceed the current book values. Any such gains will flow directly to members via crediting rates which would be a further positive factor to consider when evaluating BSF's likely overall performance over the coming year.

We are currently working actively to address the situation and return as much asset value as possible to members. The recent purchase of Super Promoters Pty Ltd by Diversa Ltd brings additional specialist resources to assist in this process and further augments Super Promoters proven and very experienced investment, superannuation, pension and insurance expertise.

BSF's Investment Manager expects the mortgage-related matters to be resolved over the coming 12 months. Members will be provided with regular updates on the progress of resolving the above issues.

With improved market conditions and with the benefit of the actions taken to date, the 1st Quarter Financial Year 2010 investment performance of the Balanced Investment Strategy has been strong. Similarly, the Conservative Investment Strategy has continued to deliver positively. And while the prior year was difficult for members, we remain proud that over a 10 year and Life of Fund basis, BSF has materially outperformed our stated investment objective and median market benchmarks.

We appreciate that the information we have provided is substantial and may need additional clarification given your particular circumstances. We encourage you to contact us if you would like to discuss any of this information or as you consider any impact upon your retirement income strategy. Please feel free to contact Super Promoters on 1 300 880 736 and we will be pleased to speak to you on the phone or if you prefer, in person.

Peter Hayes-Williams

General Manager

Super Promoters