



PROPERTY FINANCE • FUNDS MANAGEMENT

2 August 2011

Dear Investor,

**Re: Shakespeare Haney Premium Income Fund**

As you are aware the Shakespeare Haney Premium Income Fund (**Fund**) has been frozen to redemptions since January 2009. Looking at the current financial and economic environment we do not see this changing in the near future.

We are also aware there are a number of investors who wish to access their investment moneys either in part or full.

As a result we have formed the view that it is in the best interests of investors that we return capital to investors as regularly as cash inflows permit.

Accordingly, the Board has determined that future distributions to investors will predominantly comprise *capital* and not income.

Where the Fund does receive income this income will also be distributed after the amount is verified by our accountants. This process is in effect an orderly wind down of the Fund.

Investors will still after 30 June be provided with an annual tax statement which will detail the total amount of distributions paid to them during the financial year and how much of this distribution was capital and income.

**Capital Distribution**

Unlike previous redemption offers all investors will receive the return of capital and we will not require investors to apply to participate in the distributions. All capital distributions will be made on a pro-rata basis according to the number of units held and paid into your nominated account.

*Our aim* is to make monthly distributions on the 15<sup>th</sup> day of each month starting with an initial distribution of \$3million on 15<sup>th</sup> August, 2011, which equates to approximately three months equivalent of the distributions you have received to date and subsequent distributions equivalent to those you have been receiving. These distributions will be dependent on cash available but our current cash flow indicates this can be maintained for the next six months

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even if no other property sales are effected. Any significant cash inflow which has not been forecast may enable us to increase the capital distribution rate. We will provide updates to you regarding the cash flow of the Fund at regular intervals.

As this is not a redemption offer the number of units you hold will not change from month to month but obviously the value of a unit will decrease generally in line with the return of capital to you. We propose to disclose the current unit price on our website and update it monthly as capital distributions are made.

### **Unit Values**

Having regard to the above we believe that it is appropriate to assess unit values based on the simple formula contained in the Fund constitution being:

Total value of Fund assets / Total number of units issued = unit value

Using this formula:

Total value of Fund assets @ 26/07/11 :	\$109,168,937.18
Total number of units issued :	164,580,668
Unit value @ 26/07/11 :	\$0.6633

This formula does not take into account the costs in managing the Fund. These costs are, in part, offset by, future income of the Fund, but adversely affected by legal costs, land tax, rates, insurance and selling and marketing costs of security properties which may not be recovered from the borrowers.

This revised unit price does not reflect realised losses but rather changes in the market value of properties as disclosed in recent valuation reports. Any improvement in property market conditions may result in higher sale prices which will flow through to the unit value.

### **Realisation of Security Properties**

Those borrowers who have had the ability to refinance loans have already done so.

If a loan term has expired but the borrower is servicing interest payments then generally we have not acted on that default if to do so would lead to a forced sale of the security property in a low market with the possibility of a loss resulting.

Where loans have been non-performing we have been actively selling the security properties and recovering moneys owed under our first mortgages. Whilst some properties have been and are saleable in their present state others have required us to complete the development approval process, let up commercial offices / units or in one instance issue legal proceedings to obtain possession.

Much of the work in terms of approvals and let up has been taken as far as it can go and those properties are now being placed on the market for sale. However it is anticipated that extended marketing periods will be required as there are many distressed properties for sale and buyers are cautious. Buyers are also finding obtaining bank finance difficult.

In a couple of instances involving land subdivisions it may be necessary to enter into joint venture arrangements with a purchaser to obtain the maximum return possible. One joint venture under consideration involves the buyer undertaking civil and construction works for land subdivision, construction of houses on the land and paying for the individual lots as the settlements take place.

There are also likely to be a small number of properties where it is simply best to wait until market conditions improve before putting them up for sale rather than accept a fire sale price which might currently be on offer.

Although no further loans are intended to be made by the Fund during this winding down phase, the Fund will fulfil any current lending obligations and may, where we consider it is in the best interest of investors, use Fund money to pay for works on existing security properties where value will be added and/or to make the properties more saleable.

No loan term extensions will be granted.

As part of the end of financial year review of the Fund we have obtained updated valuations for many of the properties we hold as security.

What we are finding is that property values have fallen and in some cases they have fallen considerably. The main reasons for this as consistently referred to by valuers has been a fall in demand from buyers due to a lack of confidence which has been impacted by, amongst other things, rising interest rates, the high Australian dollar, diminishing personal wealth and general concern about the global economy. Further, the number of properties for sale by receivers, liquidators and property owners under financial stress appears to be at unprecedented levels. We do not see these driving forces changing in the foreseeable future.

Investors will appreciate maintenance of capital distributions is dependent upon the repatriation of cash to the Fund from property sales.

There is no doubt that property market conditions in most of Queensland are the worst that property agents can recall but it may also mean we are at the bottom of the cycle and there may be improvement in the future.

**Tax Statements for FY2011**

The information for inclusion in the statements is in the process of being verified by our accountants. We aim to be able to generate and send to investors the tax statements by end of August, 2011.

**Conclusion**

The decision to wind down the Fund has not been taken lightly but we are of the view that given the current state of the property market it is in the best interests of investors.

Please note the above does not apply to our Waratah Select Mortgage Fund. Many investors have an investment in that Fund and it is still business as usual.

Yours faithfully

**Shakespeare Haney Securities Limited**



John Haney  
**Executive Chairman**



David Williams  
**Executive Director**