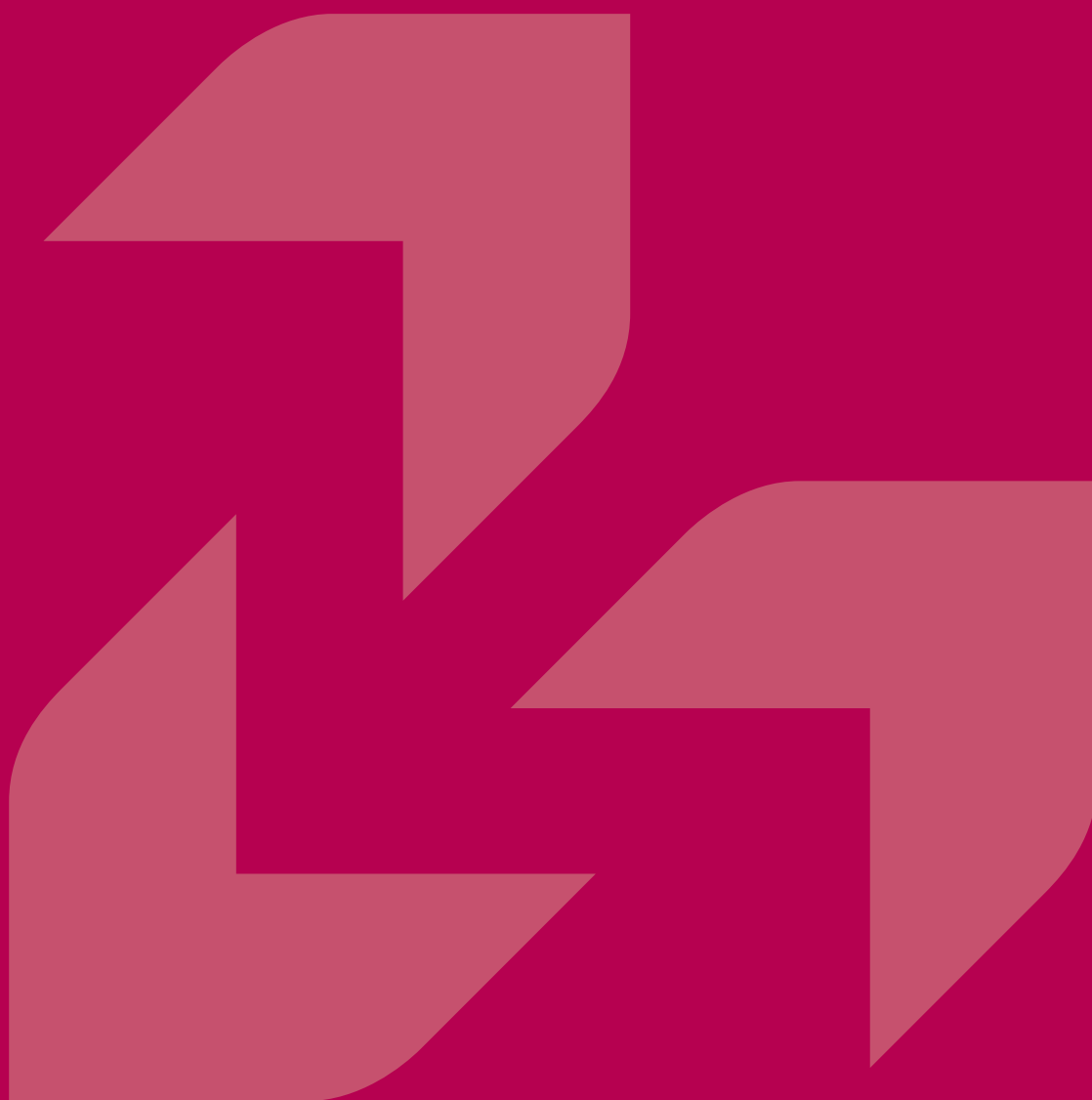


AUSTRALIAN

RESEARCH

PROPERTY INVESTMENT RESEARCH



Note: This report is based on the Provident Capital First Mortgage Fund PDS, dated **06 August 2009**, together with other information provided by Provident Capital Ltd as at October 2009.

Mortgage Fund

Provident Capital First Mortgage Fund

First-ranking mortgage fund, with a strong income-return focus

Offer Overview

Product Summary

The Provident Capital First Mortgage Fund (the *Fund*) is an unlisted unit trust that invests in first-ranking mortgage secured over residential, commercial, industrial and rural property in Australia. The Fund is managed by Provident Capital Limited (the *Manager* or *Provident*), a specialist in the area of fixed-interest investments and non-bank mortgage lending, having financed over A\$1B in mortgage loans and fixed-interest securities. The Fund satisfies all benchmark requirements, as set out by the Australian Securities and Investments Commission (ASIC)'s Regulatory Guide 45 (September 2008).

The Fund will only invest in first-ranking mortgages and will have no related party or construction/development lending. Loans will target borrowers who do not fit the lending criteria of Australia's traditional financial institutions or choose not to borrow through those channels. These may include business owners, self-employed, credit-impaired borrowers or borrowers wishing to consolidate debt. This category can also be referred to as non-prime or low-doc loans.

The stated objective of the Fund is to provide a 'regular and competitive' return that aims to be in the top quartile of all retail mortgage investment trusts as measured by Morningstar. Based on Morningstar data, the top quartile return for mortgage funds was 6.14% for the year to August 2009. Based on actual data from an existing wholesale funded mortgage portfolio, a simulated model portfolio for the Fund provided by the Manager shows an average projected return after fees of 8.8%, as is appropriate with a high return/risk profile, with 80% of the Fund in residential mortgages and over 80% of the properties in NSW/QLD. Provident's existing wholesale loan book performance has been robust in light of the current economic environment, with no credit losses experienced so far.

Investment View

Investor Suitability

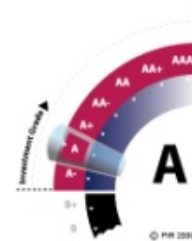
The Fund is suitable to investors who have a desire for income-focused returns, with an investment horizon of at least 12 months. Investors need to be comfortable that the Fund engages in loans that are non-conforming but subject to standard documentation and security, which may be considered in the sub-prime category. However, investors should also be compensated through higher returns. Owing to higher risk exposure, PIR views this product as being an income enhancer, rather than a staple income-producing fund such as a bank deposit.

Major Considerations

- ▲ Exposure to investing with a manager with a good track record in the area of fixed-income securities and mortgage investments.
- ▲ No related party transactions and no construction/development lending. The Manager has also demonstrated a strong focus on operational and risk management.
- ▼ Investors will need to rely on the Manager to identify appropriate investments and within pre-defined parameters in the PDS.
- ◀ The Fund satisfies all of ASIC benchmarks that are designed for investors to assess potential risks and rewards. However, the Fund has not traded and accordingly has no assets or liabilities.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

Investment Rating

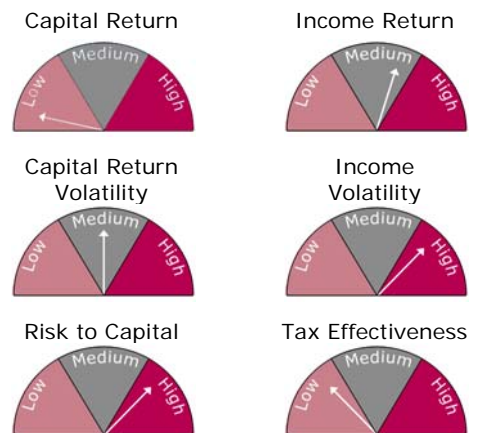


Refer to Appendix for a description of our ratings

Offer Details

Offer Opened	6 August 2009
Offer Closes	Open ended
Min. Investment Period	12 months
Min. Investment	A\$1,000
Liquidity	Withdrawals can be made after 12 months
Distributions	Monthly
Initial Unit Price	A\$1.00

Risk/Return Profile



Fees

- Establishment & Contribution Fee – Nil
- Withdrawal Fee - Nil
- Ongoing Management Fee – 2.50% p.a. of the total value of the Fund's assets
- Adviser Fee – Up to 1.10%, payable by the Manager and not from Fund assets

For Advisers Only

SWOT Summary

Strengths

- The Manager has a strong track record in the area of mortgage investments since 1990 and has raised over A\$1B of funds and lent through its mortgage programs.
- The Manager has indicated that the group's wholesale loan portfolio has performed well in light of the economic conditions, with no credit losses suffered and 90+ day arrears performance in the existing wholesale mortgage portfolio of around 5.00%. This level of arrears is high by bank standards (typically less than 1%), although compares favourably with other non-traditional mortgage loans. Moreover, loan arrears do not exceed 180 days as at September 2009.

Weaknesses

- The Fund's underlying loans are made to borrowers who cannot or choose not to finance through traditional financial institutions. This may be due to credit impairments or, for example, being self-employed and not having 'documentation' to support income.
- The Fund is unrated by a credit rating agency. Thus, it is difficult to get a third-party perspective on the relative risk of the Fund.

Opportunities

- The global financial crisis (*GFC*) has put the real estate market under considerable stress, with capital shortages affecting even quality borrowers. The Fund has the opportunity to capitalise on such market dislocation, especially if real estate and credit markets continue to stabilise.
- Margins on debt loans are at historical highs, and it is possible that the Fund will provide investors a high-yielding product at good risk/return levels.
- Many non-traditional mortgage loan providers have collapsed or are no longer providing funding. Investors have access to a fund that may be lending whilst others are not, giving it the ability to dictate pricing/terms.

Threats

- Real estate and credit market conditions may worsen should economic activity slow. In particular, the Fund intends to have a high concentration of residential loans in NSW/QLD. Any adverse performance in these markets will heavily impact the Fund's performance.
- The mortgage fund industry typically tends to be hit hard during an economic downturn or credit market dislocations, often forcing funds to freeze redemptions and distributions.
- The Fund's underlying loans will be for one to two years, which approximately matches the minimum investment period. However, investors need to stay invested for at least 12 months to redeem capital. This may require the underlying loans to be refinanced. If there are difficulties in doing so (for example, via other non-traditional loan providers or other Provident funds), investors may not be able to see a return of capital.
- In addition, the Manager, on behalf of the Fund, may seek to borrow in the short term to meet redemption requests. As such, this has the potential to alter the risk/return profile of the Fund. We note the Fund constitution allows borrowing up to 30% of the Fund's assets.

Key Qualitative Criteria

Management

Track record	★★★★☆
Investment process and philosophy	★★★★☆
Corporate governance	★★★★☆

Product

Structure	★★★★☆
Fees	★★★★☆
Exit mechanism	★★★★☆
Leverage/capital structure	★★★★☆

Portfolio

Property grade/asset quality	★★★★☆
Loan diversification	★★★★☆
Borrower strength	★★★★☆
Duration of loans	★★★★☆

Investment Profile

Number of Loans	Open ended
Security locations	Australia wide
Property sector	Residential and commercial rural property
Max. LVR (% of market value)	80

Financial Forecasts

IRR ¹ (pre-tax, %)	8.8
IRR ¹ benchmark (%)	6.14
Min. investment period (yr)	1
Tax advantage	n/a
Distribution frequency	Monthly

¹These are based on the Manager's forecasts using model portfolios and are stated after fees and expenses.



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