

25 July 2016

Our Ref: GOK_8977r2

CIRCULAR TO INVESTORS

Dear Sir/Madam

RE: LM Investment Management Limited (In Liquidation) ACN 077 208 461 (LMIM) (the Company) as the responsible entity of the LM Australian Structured Products Fund (the Fund)

I refer to my previous update regarding this Fund on 7 December 2015. I also refer to the appointment of Ginette Muller and I as Joint and Several Administrators of LM Investment Management Limited (In Liquidation) on 19 March 2013 and our subsequent appointment as Liquidators on 1 August 2013.

I provide the following update in relation to the wind-up of the Fund.

1. Closure of the LM Office

On 23 December 2014, the LMIM office on the Gold Coast was closed by the Liquidators of LM Administration Pty Ltd (In Liquidation).

As you might be aware, there are a number of insolvency firms involved with the winding-up of the various managed funds operated by LMIM. The books and records of each fund managed by LMIM are co-mingled giving rise to proprietary concerns should unrestricted access be provided to all parties involved. A Receiver was subsequently appointed to the books and records to resolve this issue through a Court sanctioned process. The Court ordered the costs of the Receiver be apportioned across the various managed funds involved.

On 29 January 2015, the Supreme Court of Queensland ordered that a copy of the LMIM server be provided to all insolvency practitioners concerned subject to strict privacy restraints.

A copy of the server was received during February 2015. Costs to re-host the server are material and may be apportioned between the managed funds remaining under LMIM's control. I am seeking to limit the costs to the Fund of re-hosting the LMIM server and I will limit the ongoing access as soon as it is not considered necessary for ongoing completion of the outstanding tax lodgements and financials.

2. Taxation Matters and Fund Records

The records of the Fund were incomplete. Further, systems and processes employed by LMIM may not have been completely developed to enable an efficient management and accounting for the Fund. For this reason, the financial accounts of the Fund needed to be reconstructed to ensure accuracy. This reconstruction has taken longer than expected for various reasons. To reduce costs, the bulk of the reconstruction of the financial accounts was outsourced to a local tax and business services firm WMS Chartered Accountants (WMS).

As noted in my previous update, my office became aware of various outstanding taxation lodgement obligations of the Fund dating from 2012 onwards. I have recently requested transfer of the Fund's taxation matters from the Fund's former accountant to WMS, whom are appointed to also prepare the Fund's management accounts and financial reports. I will continue to work with WMS to resolve the issue of the outstanding taxation lodgements and I expect these to be brought up to date within the coming months. Until these matters are resolved the Fund's taxation liability cannot be confirmed. Accordingly, the outstanding lodgements may need to be satisfied prior to any further distributions to members.

3. Claim by the Receivers and Managers for the LM First Mortgage Income Fund

My office is currently assessing a claim against the Fund by the Receivers and Managers of the FMIF for contribution to operational funding of the LMIM office. The claim is in the amount of \$119,282 (excluding GST) for the period 26 July 2013 to 23 December 2014.

Further substantiating information has been requested on several occasions but is yet to be received. I note there was no contribution agreement in place with the Receivers and Managers prior to these costs, for which they are seeking reimbursement, being incurred. Whilst the claim is not yet agreed, on a conservative basis I have included the amount in my indicative net asset value at Section 7 of this report. The claim, if valid, will need to be paid from the assets of the Fund, if available.

4. Audited accounts for financial years ended 30 June 2013 and 30 June 2014

As noted in my previous update, significant delays have been endured in relation to the completion of the audits for financial years ended 30 June 2013 and 30 June 2014, which has in turn delayed the final audit/s being progressed and completed. The finalisation of the audit had been initially delayed as a result of sourcing primary documentation to satisfy audit requirements which occurred primarily as a result of issues surrounding accessing server records following the closure of the LMIM office in December 2014. However these issues were resolved by my office and I had expected the auditors to make significant progress when they recommenced their work in August of 2015. This did not occur to the level of my expectations, and I am of the view delays since that time are solely the responsibility of the auditors.

In a recent meeting with the Australian Securities and Investments Commission (ASIC) discussions centred around these delays and the options moving forward to replace the current auditors and to expedite the finalisation of the wind-up of the Fund. In a separate meeting with the auditors they have confirmed they are targeting 31 July 2016 for a completion of the 2013 and 2014 accounts. These accounts will be lodged with ASIC and provided to investors as soon as practicable upon completion.

Given the delays by the auditors, I have advised them they will not be appointed to complete any future audit work for the Fund. As part of this ongoing discussion I will be reviewing their outstanding fees given the delays endured by the Fund. I am also in discussions with a new audit firm whom I believe will be better placed to work with the appointed accountants to complete the final audit/s in a more efficient and timely manner.

5. Custom House Currency Exchange (Australia) Pty Limited (Custom House)

Custom House was a foreign exchange provider engaged by LMIM for each of its registered managed investment schemes. Although LMIM was “in the money” on its foreign exchange contracts for the Fund, LMIM was “out of the money” on its foreign exchange contracts for other registered managed investment schemes for which LMIM is the responsible entity. As a result, Custom House sought to set-off the “out of the money” amounts owed by LMIM in respect of other registered managed investment schemes against the “in the money” amounts owed by Custom House in respect of the Fund. This claim extended to amounts held for this Fund as follows:

Euro	41,292.53
Great British Pound	48,493.70
US Dollar	197.28

After lengthy negotiations to amicably resolve this matter in an attempt to avoid the costs and uncertainty involved with court intervention, I have recently reached an agreement in principle with Custom House for the release of the above foreign currency held for the Fund. The agreement is currently being formalised and I expect to recover these funds in the coming month. In this regard, I am also seeking advice in relation to correct treatment and distribution of these funds once recovered.

6. Advisor Commissions

LMIM has historically recognised a liability for advisor commissions paid to advisors calculated as a percentage of funds invested in the Fund. These commissions were paid monthly in arrears and were brought to account on an accrual basis. The records of the Fund indicate commissions were paid up to (or around) our appointment date in March 2013.

I have now received advice the commissions are not payable as a proper expense of the Fund, and the advisors are to be treated as unsecured creditors of LMIM and may make a claim in the Liquidation. This means advisors' commissions will not be paid in priority to the return of capital to members.

Should investors receive a claim for unpaid or accrued commission directly from their advisor, they should seek their own independent legal advice.

7. Net Asset Value

An indicative position of the Fund as at 30 June 2016 is as follows:

Series No.	Financial Assets (AUD)	NCM Shares (AUD)	Cash at Bank (AUD)	Less Allocation of Liabilities (AUD)	Net Assets
1	3,432,729	-	52,310	-281,568	3,203,471
2	-	717,830	1,100	-58,085	660,845
3	-	498,985	10	-40,315	458,680
4	627,925	-	10	-50,733	577,202
5	-	129,513	3,099	-10,714	121,898
6	-	-	24,295	-1,963	22,332
7	-	302,956	2,150	-24,651	280,455
8	318,200	-	450	-25,745	292,905
9	-	367,563	1,799	-29,842	339,520
10	-	-	2,412	-195	2,217
12	-	-	1,128,829	-91,202	1,037,627

Series No.	Net Assets (AUD)	Estimated Units AUD equivalent at 30 June 2016	Estimated Unit Price as at 30 June 2016 (cents in dollar AUD)
1	3,203,471	2,601,408	1.23
2	660,845	1,335,866	0.49
3	458,680	808,013	0.57
4	577,202	533,067	1.08
5	121,898	178,796	0.68
6	22,332	18,668	1.20
7	280,455	349,367	0.80
8	292,905	270,800	1.08
9	339,520	408,245	0.83
10	2,217	Nil	Nil
12	1,037,627	1,300,170	0.80

I note the estimated asset and unit values are expressed in AUD equivalents and are subject to daily market fluctuations. Accordingly, they are subject to change without notice to members. I also note the expenses listed are excluding GST where applicable.

Further clarification surrounding the indicative asset valuations are as follows:

- The financial assets are valued in accordance with the monthly valuation statement received from Deutsche Bank Group (DB) dated 29 June 2016;
- The Newcrest Mining Limited (NCM) shareholdings have been valued at a price of \$23.00 per share, being close price on 30 June 2016. The responsible entity has commenced realisation of the NCM shareholdings and once converted to cash, proceeds will be held in the series specific high interest bank accounts pending distribution; and
- All current cash holdings are held in series specific high interest bearing bank accounts.

For the purposes of presenting an indicative net position, the creditors and expenses of the Fund at 30 June 2016 have been allocated proportionally to each series based on gross asset value of that series at the date of the allocation. Please also note the above net asset position is calculated before consideration of future wind-up costs (including custody fees, accounting and audit costs, and Liquidator remuneration and out of pocket expenses) not yet been invoiced or yet to be incurred. These future costs are expected to be relatively significant considering the ongoing work required in relation to finalising the outstanding taxation and audit matters. The Liquidators will do everything possible to minimise the ongoing wind-up costs.

The net asset position is also subject to change should additional liabilities of the Fund be identified. As noted earlier in the report, I am in the process of determining the final creditor claims and taxation obligations of the Fund.

The estimated known liabilities of the Fund as at 30 June 2016 are summarised as follows:

Unsecured Creditors	121,336
Legal Fees	22,063
Accounting Fees	41,280
Contingent claim by Receiver of LM FMIF	119,282
LMIM operational costs reimbursements	59,988
Liquidators remuneration and expenses	<u>251,063</u>
TOTAL	615,012

8. Future Strategy

Previously I have advised I was investigating various strategies to wind-up the Fund. I have have been advised the transfer of the Fund's underlying investments is not available to all members. Further, as the responsible entity, LMIM must act in the interests of all members and to apply a different strategy to different member groups would incur additional costs to members. These costs would not be for the benefit of all members. For these reasons the future strategy is limited to three (3) options:

- Option 1 Hold all unexpired DB positions until their respective maturity date and distribute progressively;
- Option 2: Hold all member funds until the last maturity date and distribute; or
- Option 3: Unwind and sell investments as soon as practicable and distribute.

These options are considered further below.

Option 1

If investments are held to maturity and distributions made progressively, the risk is that members of a series with an earlier maturity date may incur more or less than their proportion of Fund wind-up expenses as a result of budget to actual variances and other unforeseen expenses during the later stages of the wind-up. Further, this approach would incur additional professional time and expense to administer in order to mitigate risks to equality. For these reasons, holding investments to their respective maturity dates and making progressive distributions is not in the best interests of all members and cannot be recommended by LMIM.

Option 2

Holding all funds until the last investment matures provides equality amongst series in terms of expense allocation. A significant detraction is that it causes inequality for those members with shorter term investments who would be denied access to their funds until the last series matures. For these reasons, this option is not viewed to be in the best interests of all members and is not recommended by LMIM.

Option 3

Unwind all investments and make an interim distribution to all members as soon as practicable whilst the final creditor and liability position is being finalised with the accountants. Once that position is clear, a final distribution, if any, could then be made to members. Fund expenses (including contingency for future estimates) allocated to each series would need to be deducted prior to the interim distribution. The intention of LMIM would be to only hold sufficient cash to meet creditor claims, anticipated wind-up expenses plus a contingency for unforeseen liabilities. The cash held back from each series' would remain in high interest bank accounts to ensure it continued to earn income.

For reference, in relation to remaining positions held with DB, DB has provided the following **indicative** unwind values at 14 July 2016:

Series #	Maturity date	Unwind Price (%)	Unwind Price (\$)
ASPF 1	3 October 2016	140.59%	3,590,668.60
ASPF 4	24 October 2017	120.97%	645,979.80
ASPF 8	16 February 2018	120.60%	326,826.00

DB have confirmed the above prices are inclusive of any break fees.

Recommendation

LMIM recommends Option 3 to members and intends to proceed with this option. This option will allow the Liquidators to make an interim distribution across all series whilst the wind-up of the Fund is completed. The option should also allow the wind-up of the Fund to be completed as soon as possible, thus reducing ongoing compliance and wind-up costs.

If you object to this course of action please contact my office with an alternative option that provides equality to all members. I am happy to review and consult further with the member body.

All options have their attractions and detractions. Under all options the expenses of the Fund will need to be allocated from the assets available from each series. Where an expense is general in nature and not series specific LMIM intends to allocate the expense proportionally to each series based on gross asset value of that series at the date of expense allocation. This approach is consistent in nature with the approach taken during the wind-up of the balance of LMIM registered managed investment schemes and provides equality amongst members.

Contact Details

Investors are able to obtain further information by either:

1. Updates will be provided on the LMIM administration website (www.lminvestmentadministration.com);
2. Sending an email outlining your queries to enquiries@lminvestmentadministration.com; and

3. Queries concerning transaction statements, holdings and updated details should be directed to Advanced Share Registry, the details of which are as follows:

- Telephone: +618 9389 8033
- Fax: +618 9262 3723
- Email: admin@advancedshare.com.au
- Address: PO Box 1156, Nedlands WA 6909

Yours faithfully
FTI Consulting



John Park
Liquidator