

SUPREME COURT OF QUEENSLAND

REGISTRY: Brisbane
NUMBER: 3383 of 2013

Applicant: RAYMOND EDWARD BRUCE AND VICKI PATRICIA BRUCE

AND

First Respondent: LM INVESTMENT MANAGEMENT LIMITED
(ADMINISTRATORS APPOINTED), ACN 077 208 461,
IN ITS CAPACITY AS RESPONSIBLE ENTITY OF THE LM FIRST
MORTGAGE INCOME FUND

AND

Second Respondent: THE MEMBERS OF THE LM FIRST MORTGAGE INCOME FUND
ARSN 089 343 288

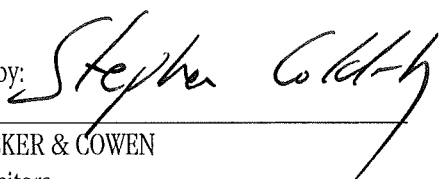
AFFIDAVIT OF DAVID ROBERT WALTER TUCKER

I, DAVID ROBERT WALTER TUCKER, Solicitor of Level 15, 15 Adelaide Street, Brisbane in the State of Queensland being duly sworn make oath and say as follows:-

1. I am a partner of the firm Messrs Tucker & Cowen, the solicitors for Mr Roger Shotton.
2. My firm was retained by Mr Shotton last Friday, 26 April 2013 at approximately 4.00pm.
Mr Shotton has informed me, and I believe, as follows:-
 - (a) That he is an investor in the LM First Mortgage Investment Fund;

Page 1

Signed: 

Witnessed by: 


AFFIDAVIT:
Form 46, R.431

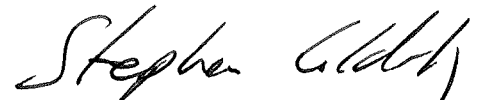
TUCKER & COWEN
Solicitors
Level 15
15 Adelaide Street
Brisbane, Qld, 4000.
Tele: (07) 300 300 00
Fax: (07) 300 300 33

Filed on behalf of the Respondent

- (b) His investor ID no. is 131395, being account no. 100261130;
 - (c) He made his initial investment in the LMFMIIF on 2 September 2008 by investing a sum of US\$259,989.67, and is still owed that sum plus interest;
3. He is concerned about the appointment of a new responsible entity to the LMFMIIF for reasons of cost and independence, and would prefer a truly independent receiver appointed to the LMFMIIF to collect in its assets and distribute them for the benefit of investors, and to otherwise act solely to protect the interests of investors.
4. Now produced and shown to me and marked "DRT-1" is an indexed paginated bundle of the following correspondence which has been obtained from the websites maintained by Trilogy Funds and FTI Consulting:-
- (a) Trilogy Fund's letter of 23 November 2012;
 - (b) Trilogy Fund's "Reasons to Change the Manager" letter dated 19 April 2013;
 - (c) Trilogy Fund's "Update for Investors and Advisors" dated 19 April 2013;
 - (d) FTI Consulting Circular to Creditors of 25 April 2013;
 - (e) FTI Consulting Circular to Investors and Advisor of 26 April 2013.
5. All the facts and circumstances above deposed to are within my own knowledge save such as are deposed to from information only and my means of knowledge and sources of information appear on the face of this my Affidavit.

Sworn by DAVID ROBERT WALTER TUCKER on the 29th day of April 2013 at Brisbane in the presence of:


Deponent


Solicitor/A Justice of the Peace

SUPREME COURT OF QUEENSLAND

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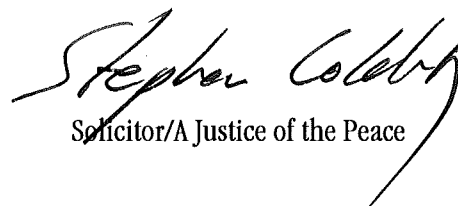
Second Respondent: THE MEMBERS OF THE LM FIRST MORTGAGE INCOME FUND
ARSN 089 343 288

CERTIFICATE OF EXHIBIT

Exhibit "DRT-1" to the Affidavit of DAVID ROBERT WALTER TUCKER sworn this 29th day of April 2013



Deponent


Solicitor/A Justice of the Peace

CERTIFICATE OF EXHIBIT:
Form 47, R.435

Filed on behalf of the Respondent

TUCKER & COWEN
Solicitors
Level 15
15 Adelaide Street
Brisbane, Qld, 4000
Tele: (07) 300 300 00
Fax: (07) 300 300 33

SUPREME COURT OF QUEENSLAND

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INDEX OF EXHIBITS

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TRILOGY

FUNDS

23 November 2012

LM Wholesale First Mortgage Income Fund – Welcome

Following our recent appointment as Responsible Entity (RE), we warmly welcome investors and advisers in the LM Wholesale First Mortgage Income Fund ('Wholesale Fund' or 'the Fund').

Through an Extraordinary General Meeting held in Sydney on 1 November 2012 (the Meeting), 69% of Members representing 53.8% of the value of the Wholesale Fund **voted in favour** of replacing LM Investment Management Limited (LM) with Trilogy Funds Management Limited (Trilogy) as RE. Our appointment took effect on 16 November 2012, when ASIC updated the register to note Trilogy Funds Management Limited as the new RE.

We believe that our appointment confirms widespread investor support for a change in RE and is a clear endorsement of our decision to bring about this change on behalf of investors in the Wholesale Fund.

Please note that we remain firmly committed to our strategy on behalf of concerned investors and their advisers to bring about a change in RE of the LM Currency Protected Australian Income Fund ('Currency Protected Fund') and LM First Mortgage Income Fund ('Holding Fund'). The accompanying Appendix shows the relationship between these funds and inextricable link between your investment and that of the Holding Fund (the units of which represent the sole asset of your Fund).

Our appointment as RE of the Wholesale Fund has provided immediate benefits for investors:

1. LM has started to communicate with you, the investor and your financial planner.
2. LM has introduced the same significant and ongoing fee reductions for the Fund as was proposed by us. Effective 1 November 2012 (the date of the Meeting), investors in the Wholesale Fund will now save more than \$2.2 million in management fees per year. On a combined basis, investors in the Holding Fund and its associated feeder funds will now save more than \$9.8 million in fees per year.

	Before Meeting	After Meeting	Annual saving
LM Wholesale First Mortgage Income Fund	\$3.8m	\$1.5m	\$2.3m
LM Currency Protected Australian Income Fund	\$4.4m	\$1.3m	\$3.1m
LM First Mortgage Income Fund	\$11.4m	\$6.8m	\$4.5m
	\$19.6m	\$9.6m	\$9.9m

Please note: All figures are based on the accounts for the year ended 30 June 2011

3. LM has listened to investors and has withdrawn its unpopular proposal to split the assets in the Holding Fund and implement a buy or hold scheme. Instead LM has agreed to sell down the fund's assets and allow all investors to share equally in the Fund's assets.
4. LM has followed Trilogy's lead and announced its intention to establish an investor committee to allow investors greater involvement in the fund. However, while Trilogy proposed an independent member selection process, LM intends to choose members itself.

What can Trilogy do as RE of the Wholesale Fund?

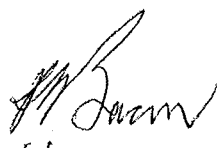
While Trilogy is not in a position to control the disposal of assets and won't be until we become the RE of the Holding Fund, we intend to use our influence as a 20% unitholder in the Holding Fund (see accompanying Appendix) to oversee LM's performance and exert due pressure to help protect the interest of Wholesale Fund investors.

1. We have met with the Wholesale Fund auditors Ernst & Young, who are also the auditors of the Holding Fund, to understand why the 2012 accounts are so late. Without access to the accounts, investors remain oblivious to the true financial state of the Fund and the value of their investment. This is particularly concerning given successive write downs in unit value and LM's 8 November admission that a further write down for the 2012 financial year is likely.
2. We have had meetings with ASIC to discuss the ongoing breaches by LM in respect of the late accounts and the failure to lodge an RG45 since August 2011.
3. As the RE of the Wholesale Fund, our first question to LM relates to the disposal of a Holding Fund asset, described as a 'student accommodation property' located in Cairns. The property was last purchased for \$10 million but recently sold for as little as \$3.85 million. We also understand that the carrying value of the loan was more than \$10 million. If this is correct, we need to understand how this gross loss of investor funds came about under LM's management.

We will hopefully be in a position to provide investors with an update on our discussions in the near future. In the mean time, we welcome the opportunity to discuss any concerns you may have or to share with you the vision for your Fund that your fellow investors have asked us to pursue.

Please feel free to contact Joe Christie on + 61 2 8028 2804 or j.christie@trilogyfunds.com.au or for New Zealand, David Jansen on + 64 21 675 244 or jansendw@gmail.com

Yours sincerely



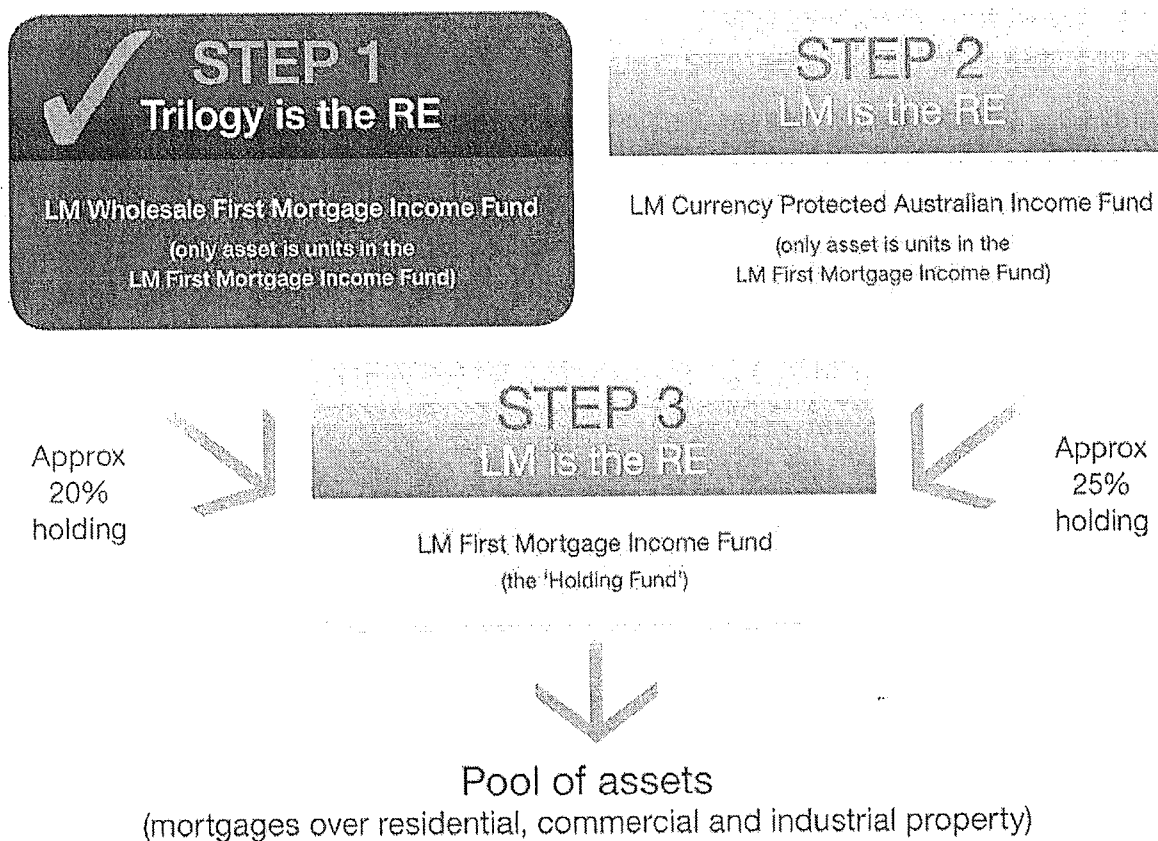
Rodger Bacon
Executive Deputy Chairman

This letter has been prepared as general information only and is not intended to take the place of professional financial advice. Recipients of this letters should conduct their own investigations and analysis regarding any information, representation or statement contained in this or any other written or verbal information made available to them.

Appendix

The Wholesale Fund holds units in the LM First Mortgage Income Fund (the Holding Fund) as its sole asset. As at 31 December 2011, the Wholesale Fund held in excess of 20% of the units in the Holding Fund. All the real assets (primarily commercial mortgages over real property) are held by the Holding Fund.

Our strategy for LM investors



REASONS TO CHANGE THE MANAGER (RE) OF THE LM FIRST MORTGAGE INCOME FUND AND THE LM CURRENCY PROTECTED AUSTRALIAN INCOME FUND, AND WHY TRILOGY FUNDS MANAGEMENT.

Distance from Administrator

The appointment of an Administrator will have already had the effect of lowering the price expectation on the assets of the Income Trust.

The Administrator has stated that the likely result of the Administration would be:

- a) LMIM being placed into liquidation and a receiver appointed to the Income Trust to sell off the assets.
- b) Control returned to Directors-unlikely that ASIC would allow this to happen
- c) Enter into a Deed of Company Arrangement(DOCA)

Receiver appointed to Fund: If LMIM is placed into liquidation and a receiver appointed to the Fund this would have a serious negative affect on the value of the assets as potential buyers will be looking for and expecting significant discounts on the sales price, in an already 'soft' property market.

LMIM enters into a DOCA: If LMIM enters into a DOCA then Piper Alderman, solicitors have indicated that investors in the Income Fund are likely to lose their right to take action against LMIM and its Directors. Piper Alderman believe that the Income Fund and its unitholders have a potential claim against LMIM and its Directors. The Administrator has stated that at best the unitholders will only be allowed in to vote on a DOCA as contingent creditors at \$1 per investor ie. a total of \$7000 which would be swamped by other creditors.

Remove the Conflicts with FTI Consulting

Drake and his directors appointed FTI and certain LM executives have had a long association with some of the FTI people. Conflicts of FTI became a prominent and pressing issue for the Supreme Court of Queensland on Friday 12 April, when it handed down its decision to immediately remove LMIM (with FTI as Administrator) from its position of trustee of the MPF. The RE of the funds must be completely independent and able to bring actions against the past RE and its directors. Trilogy meets this requirement.

Trilogy has Lower Fees and Costs

The Administrator has stated that it will charge \$300,000 for its first 8 business days work and that its staff are allocating their time between funds and LMIM. We are not aware as to what extent they are charging the funds directly for this time as against taking it out as an administration or management fee.

Trilogy has a set management fee proposal of 1.5% pa (nil for feeder funds where it is the RE) of total assets and this fee declines as assets are realised.

Clean Split from LM

What the Income Fund and the Currency Fund need is a clean split from LM and the "taint" of the Administration. LM is going to be in the papers and other media for many months ahead and unitholders of both the funds need to distance themselves and allow the funds to have a new manager and new identity to progressively and sensibly manage down the portfolio of assets.

"LM "needs to be dropped from the name of these funds so as to ensure a clean exit from LM and the Administrator.

Other Reasons Why Trilogy?

Trilogy is an experienced Mortgage Trust Manager: Trilogy manages its own pooled mortgage trust which is one of only a few that remained open and paid distributions throughout the GFC.

Trilogy's directors and senior staff have been involved in running mortgage trusts for many years including running the Howard Mortgage Trust and building it up from \$400 million to \$3,000 million of mortgages under management.

Trilogy has been involved in the work out of distressed property development assets having taken over in joint venture with Balmain Corporation Limited the City Pacific First Mortgage Fund.

Trilogy is Independent: Trilogy has had no previous association with Peter Drake and the directors of LMIM. Any association has only come as part of Trilogy's attempt on behalf of major unitholders to remove LMIM as the RE of some of the Funds.

Trilogy has a knowledge of the Funds Assets: Trilogy has been working for over a year with a number of investors, in the various funds, who have been very concerned with the performance and actions of LMIM. Through this and through the assistance of a number of past employees Trilogy has developed an understanding and knowledge of the Funds and their assets.

Trilogy is RE of LM Wholesale Fund

Following a meeting of unitholders on 1 November 2012 Trilogy was appointed RE of the Wholesale Fund. The wholesale Fund's only asset is its 20% holding in the units of the Income Fund, and it makes commercial sense to work to maximise the return for all unitholders, whether they are direct investors in the Income Fund or via the feeder funds, by having one prudential and experienced RE managing the linked funds and who fully understands the complexity of issues regarding the assets and the funds.

19 April 2013

TRILOGY

FUNDS

UPDATE FOR INVESTORS AND ADVISERS

19 APRIL 2013

- LM FIRST MORTGAGE INCOME FUND ("INCOME FUND")
 - LM CURRENCY PROTECTED AUSTRALIAN INCOME FUND ("CURRENCY FUND")
-

RECENT EVENTS:

Unitholders would be aware that there were considerable and ongoing difficulties in the operation and financing of the LM group of companies and trusts. Much of this was covered by media in Australia and New Zealand. These difficulties came to a head on 19 March 2013 when external administrators FTI Consulting ("FTI") were appointed to LM Investment Management Limited (the Responsible Entity) ("LMIM" or "RE") and LM Administration Pty Limited ("LMA") (the LM services company), and then they were subsequently removed as trustee of the Managed Performance Fund ("MPF") by the Supreme Court of Queensland on Friday 12 April due to clear conflicts between LMIM, the Administrators, and the interests of unitholders. We note that as of the date of this correspondence, that they still hold the position of Administrator of the RE and thus over the assets of the Income Fund and the Currency Fund which is of grave concern to Trilogy and other unitholders.

The initial creditors meeting was held on 2 April, 2013 without unitholder attendance. The FTI budget estimate for the initial 8 business days of their stewardship was \$300,000 (approximately \$37,500 per day). Since then FTI applied to the Court and on 12 April 2013 was granted an extended 90 day period to 2 July 2013 for holding the 2nd Creditors meeting.

More recently (9th April 2013) ASIC announced the suspension of the LM AFS Licence with some limited exemptions one of which was to permit the Administrators to provide a financial service such as the transfer to a new responsible entity.

In order to remove the "vacuum" of no fully fledged independent RE, unitholders have as a first step with the advice of Piper Alderman proceeded to apply to the Supreme Court of Queensland for Trilogy to be appointed RE for the LM First Mortgage Income Fund. This may involve Trilogy being appointed Temporary RE ("TRE") and if so Trilogy will call a meeting of fund unitholders within 90 days of its appointment in order to vote on the permanent appointment of the RE.

As you are aware Trilogy was appointed RE of the LM Wholesale Fund in November 2012. This feeder fund has 20% of the units of the Income Fund.

THE BEST INTERESTS OF UNITHOLDERS:

There is a fundamental difference between the role of a Responsible Entity acting, as it must, in the best interest of unitholders, and an Administrator or for that matter, a Receiver who has a starting position of acting for the creditors and shareholders of the funds manager (LMIM and LMA) and who act purely on a fee based profit driven basis as they are not unitholders in the fund. It must also be said that the appointment of a Receiver is often perceived in the market

Trilogy Funds Management Limited

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place as a "destroyer of asset values" and the precursor to "fire sales" which can be most harmful in "soft" market conditions.

TRILOGY SUPPORTING UNITHOLDERS:

Trilogy will finance and assist the unitholders of the Income Fund to make applications to the Supreme Court of Queensland to become the TRE. With unitholder support we will then call unitholder meetings (within 90 days) to become the permanent RE, again at our cost. Thereafter we will follow a similar process for the Currency Fund.

In this regard it is worth reflecting briefly on the past. During and after the previous calling of a meeting of the Currency Fund unitholders, LM (Peter Drake) made many references to Trilogy which were inaccurate and/or misleading, and in some cases, defamatory. These were the actions of a desperate man and such claims were not true then and of course are not true now.

Trilogy does not claim "perfection" as a property funds manager, but does have very considerable skills, resources, background and experience in the commercial mortgage industry.

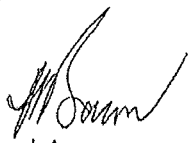
Please refer to the attached paper – "Why Trilogy".

Trilogy's commitment to LM unitholders is unique and undeniable, as our remuneration is intrinsically linked to our work to maximise the return of unitholder's capital. Further more, Trilogy proposes to set its management fee at 1.5% pa of the asset value and nil fee on the feeder funds where it is RE, to be diligent, we will have a "no firesales" policy, to always act in the best interest of unitholders and to be an open and transparent manager for unitholders, assisted by an Investor Committee.

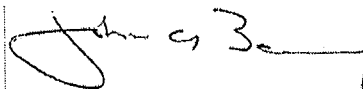
We will keep you informed of progress with the Court and in the meantime could you please indicate your support for Trilogy's appointment by completing and returning (by email or fax to Piper Alderman) the attached "An Indication of Support" form.

If you have any questions please feel free to contact us on 07 3039 2888 (Client Services) and 021 675 244 (New Zealand).

Regards



Rodger Bacon
(Deputy Chairman)



John Barry
(Director)



25 April 2013

Our Ref: RCL_8974r8 Circular to Investors (MIF).docx

CIRCULAR TO INVESTORS IN THE LM FIRST MORTGAGE INCOME FUND AND FEEDER FUNDS

Dear Sir/Madam

RE: LM Investment Management Limited (Administrators Appointed) ACN 077 208 461 ("LMIM")

I refer to the appointment of John Park and I as joint and several Administrators of LMIM on 19 March 2013 pursuant to resolution of LMIM board of directors.

Please find ***enclosed** a circular to the investors in the LM First Mortgage Income Fund ("FMIF") and the feeder funds to the FMIF, namely the Currency Protected Australian Income Fund and the Institutional Currency Protected Australian Income Fund.

Contact Details

Investors are able to obtain further information as follows:

1. Regular updates will be provided on the LMIM voluntary administration website (www.lminvestmentadministration.com); or
2. You can send an email to mail@lmaustralia.com.

Yours faithfully
FTI Consulting

A handwritten signature in black ink, appearing to read 'Ginette Muller'.

Ginette Muller
Voluntary Administrator
***Encl.**

FTI Consulting (Australia) Pty Limited
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LM Investment Management Ltd

The global pathway to Australian investment solutions

Administrators Appointed

LM First Mortgage Income Fund Investor Update

Key Highlights

- John Park and Ginette Muller of FTI Consulting (**FTI**) the Voluntary Administrators of LM Investment Management Ltd (Administrators Appointed) (**LMIM**) as the Responsible Entity of the LM First Mortgage Income Fund (**Fund**) are working with LMIM management to continue the orderly sale of all the remaining assets of the Fund and provide a return of investors' investment capital as quickly as possible, whilst protecting asset value and with the least possible disruption to investors;
- The March capital distribution was completed by LMIM as proposed;
- A further capital distribution will be paid from the LM First Mortgage Income Fund by the end of May. The total will be \$4,270,690.45;
- A program of regular quarterly capital distributions is proposed, with quantification still being determined;
- A comprehensive asset review is currently underway to ensure that individual asset strategies are adopted to maximise the returns to investors;
- FTI Consulting has seconded a highly experienced asset management team to oversee LMIM management in this asset strategy review and provide further input into individual asset strategies;
- The Deutsche Bank facility remains in place and operating normally; and
- A comprehensive Fund update will be provided once this review of assets is completed.

Overview

The LM First Mortgage Income Fund ("Fund") comprises a portfolio of 26 Registered First Mortgage Securities Loans and 1 Registered Second Mortgage Security Loan with a historical book value of \$326,102,759 (per the last formal investor update dated 24 January 2013). The Responsible Entity of the Fund, LM Investment Management Limited (Administrators Appointed) ACN 077 208 461 ("LMIM") appointed John Park and Ginette Muller of FTI Consulting as Voluntary Administrators on 19 March 2013.

LMIM, the responsible entity of the Fund, is in voluntary administration. The Fund is not in administration. The Fund is legally segregated and a separate entity from the responsible entity. The Fund remains closed to new investors and quarantined to ensure its assets are protected.

Management of Fund Assets

Existing LMIM staff with the requisite skills and knowledge have been retained by the Administrators to continue to manage the Fund's assets. The Voluntary Administrators have assembled a small dedicated and experienced team from within FTI Consulting to oversee the management of the Fund assets and provide additional expertise into the development and execution of asset strategies. The FTI Consulting team is headed up by John Corbett, a former banking executive with extensive commercial experience across the types of assets held within the Fund, and they are working very closely with the LMIM asset personnel in reviewing all assets and identifying avenues to maximise the returns to investors.

As was communicated in the previous investor update by LMIM on 24 January 2013, the overarching Fund strategy was to "undertake an asset sales program with an orderly sale of all the remaining assets of the Fund in a commercial manner, with an objective to return investors' investment capital as quickly as commercially possible".

The process presently being undertaken by the FTI Consulting and LMIM asset management team is as follows:

- Review of all existing asset strategies;
- Undertake further market analysis / valuation relating to asset strategies where required;
- Seek further independent expert input into specific asset issues where required;
- Develop asset level cash flows to better understand asset costs and returns to assist in decision making;
- After consideration of all the above data, refine asset strategies to ensure returns to investors are being maximised;
- Establish individual asset action plans with clear LMIM accountabilities and timelines; and
- Development of a total Fund level strategic plan and financial plan that consolidates individual asset strategies, total fund value, repayment of the Deutsche Bank facility and timing of investor returns.

This ensures that a thorough approach is being adopted across all assets to identify issues and impediments to maximising value in a timely manner and to ensure that FTI can deliver to the twofold over-riding objectives of returning investors' investment capital as quickly as commercially feasible, and also to maximise the returns to investors.

Fund Valuation

The Administrators are unable to provide a definitive valuation of the Fund at this stage of the review process, as they require considerably more independent data to be gathered and assessed beforehand. However, they highlight the following:

- Development loans are assessed on both an "as is" basis and "as if complete" basis;
- A large number of these development loans are in default and have not had an independent review of asset values for some time.

From a whole of fund valuation perspective, the Fund is vulnerable to any movements in the value of underlying property and with a large proportion of these loans classified as "development loans" and "in default" it is likely that there will be further downside movement in the valuation of the Fund.

The assets therefore require well considered and efficient strategies to arrest declines in asset values. This is a high priority area for the FTI Consulting team and one where they are well experienced to assist LMIM management.

Deutsche Bank Facility

The Fund has a fully drawn line of credit with Deutsche Bank sitting at \$26.5 million. This facility remains in place and continues to operate in the same manner as before the appointment of Voluntary Administrators to LMIM. We are pleased to report that, since FTI's appointment, Deutsche Bank has not required any amendment of the terms of the approved facility parameters. The Administrators continue to meet the interest costs of this facility from the cash flows of the Fund.

In addition, FTI has maintained the previously agreed progressive reduction in the facility from the Fund cash flows, to ensure they achieve the required maximum facility level of \$25 million by May 2013.

The Voluntary Administrators maintain a close dialogue with Deutsche Bank to ensure they remain fully informed and comfortable with the ongoing operations of this facility. The Deutsche Bank facility is in place to 30 June 2014, with an option to further extend to 30 June 2015, if required.

Capital Distributions to Investors

The FMIF is distributing a total of \$4,270,690.45 to ALL underlying investors, including each of the LM Currency Protected Australian Income Fund (**CPAIF**), LM Institutional Currency Protected Australian Income Fund (**ICPAIF**) and former LM Wholesale First Mortgage Income Fund (**WFMIF**). Payments will be received by investors by the end of May. You will be notified of the cents per unit represented by the payment when the payment is made. Following are the total payments:

- CPAIF - \$1,056,318.30
- ICPAIF - \$81,832.71
- WFMIF - \$844,695.05
- Other FMIF investors - \$2,287,844.39

Members should be aware that the consent of Deutsche Bank was necessary before this distribution could be made. FTI is pleased that it was able to negotiate that consent.

We remind wholesale fund investors that Trilogy will be responsible for distributing the capital payment it receives to the underlying investors in that fund. LMIM made a capital distribution of \$1.7million to the wholesale fund at the beginning of March 2013.

A distribution statement will be forwarded to you when the payment is made and this will set out the cents per unit returned to you.

Update Your Payment Details

As you are aware, capital distributions were made to investors in March 2013. We note that LMIM had incomplete recipient bank account details for some investors at the time which saw some capital distributions returned by the receiving bank. With FTI, we are presently addressing these errors to enable a secondary bank file run to provide these investors with their March distributions as quickly as possible.

If you have recently changed your bank details it is important that you please advise LMIM as soon as practicable by emailing mail@LMaustralia.com.

Income Catch-up for Relevant Investors in the LM First Mortgage Income Fund

FTI is aware of this issue and proposes to make a further payment to those FMIF investors with income distributions outstanding. FTI will provide further communication around the timing of such payment as soon as possible.

Formal Fund and Asset Update

As can be appreciated by the tasks presently being undertaken in reviewing each of the Fund's assets, FTI will require further time before they are able to provide a definitive communication on the Fund. This communication will provide details on:

- The overall Fund valuation (both on an "as is" basis and expectations for total returns as asset strategies are executed);
- Individual asset descriptions and details as to their current strategies;
- Currently identified risks to achieving Fund level outcomes;
- The strategies being employed to manage these risks;
- Details on the expected payment profile for return of investors' capital; and
- Forecast level of distributions in the first few periods.

FTI is committed to continuing to provide investors with a high level of transparency and meaningful information as to their investment in the Fund, as they fully appreciate the impact to individual investors of the closure and decline in capital value of the Fund over the past couple of years, together with the uncertainties created through the Voluntary Administration of LMIM.

We would like to assure investors that FTI is working to maximise the capital return of the fund in a timely manner and trust that FTI's formal fund update will provide further comfort in this regard.

25 April 2013

Our Ref: RCL_8974r8 Circular to Investors (MIF).docx

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Contact Details

Investors are able to obtain further information as follows:

1. Regular updates will be provided on the LMIM voluntary administration website (www.lminvestmentadministration.com); or
2. You can send an email to mail@lmaustralia.com.

Yours faithfully
FTI Consulting



Ginette Muller
Voluntary Administrator
***Encl.**

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LM Investment Management Ltd

The global pathway to Australian investment solutions

Administrators Appointed

LM First Mortgage Income Fund Investor Update

Key Highlights

- John Park and Ginette Muller of FTI Consulting (**FTI**) the Voluntary Administrators of LM Investment Management Ltd (Administrators Appointed) (**LMIM**) as the Responsible Entity of the LM First Mortgage Income Fund (**Fund**) are working with LMIM management to continue the orderly sale of all the remaining assets of the Fund and provide a return of investors' investment capital as quickly as possible, whilst protecting asset value and with the least possible disruption to investors;
- The March capital distribution was completed by LMIM as proposed;
- A further capital distribution will be paid from the LM First Mortgage Income Fund by the end of May. The total will be \$4,270,690.45;
- A program of regular quarterly capital distributions is proposed, with quantification still being determined;
- A comprehensive asset review is currently underway to ensure that individual asset strategies are adopted to maximise the returns to investors;
- FTI Consulting has seconded a highly experienced asset management team to oversee LMIM management in this asset strategy review and provide further input into individual asset strategies;
- The Deutsche Bank facility remains in place and operating normally; and
- A comprehensive Fund update will be provided once this review of assets is completed.

Overview

The LM First Mortgage Income Fund ("Fund") comprises a portfolio of 26 Registered First Mortgage Securities Loans and 1 Registered Second Mortgage Security Loan with a historical book value of \$326,102,759 (per the last formal investor update dated 24 January 2013). The Responsible Entity of the Fund, LM Investment Management Limited (Administrators Appointed) ACN 077 208 461 ("LMIM") appointed John Park and Ginette Muller of FTI Consulting as Voluntary Administrators on 19 March 2013.

LMIM, the responsible entity of the Fund, is in voluntary administration. The Fund is not in administration. The Fund is legally segregated and a separate entity from the responsible entity. The Fund remains closed to new investors and quarantined to ensure its assets are protected.

Management of Fund Assets

Existing LMIM staff with the requisite skills and knowledge have been retained by the Administrators to continue to manage the Fund's assets. The Voluntary Administrators have assembled a small dedicated and experienced team from within FTI Consulting to oversee the management of the Fund assets and provide additional expertise into the development and execution of asset strategies. The FTI Consulting team is headed up by John Corbett, a former banking executive with extensive commercial experience across the types of assets held within the Fund, and they are working very closely with the LMIM asset personnel in reviewing all assets and identifying avenues to maximise the returns to investors.

As was communicated in the previous investor update by LMIM on 24 January 2013, the overarching Fund strategy was to "undertake an asset sales program with an orderly sale of all the remaining assets of the Fund in a commercial manner, with an objective to return investors' investment capital as quickly as commercially possible".

The process presently being undertaken by the FTI Consulting and LMIM asset management team is as follows:

- Review of all existing asset strategies;
- Undertake further market analysis / valuation relating to asset strategies where required;
- Seek further independent expert input into specific asset issues where required;
- Develop asset level cash flows to better understand asset costs and returns to assist in decision making;
- After consideration of all the above data, refine asset strategies to ensure returns to investors are being maximised;
- Establish individual asset action plans with clear LMIM accountabilities and timelines; and
- Development of a total Fund level strategic plan and financial plan that consolidates individual asset strategies, total fund value, repayment of the Deutsche Bank facility and timing of investor returns.

This ensures that a thorough approach is being adopted across all assets to identify issues and impediments to maximising value in a timely manner and to ensure that FTI can deliver to the twofold over-riding objectives of returning investors' investment capital as quickly as commercially feasible, and also to maximise the returns to investors.

Fund Valuation

The Administrators are unable to provide a definitive valuation of the Fund at this stage of the review process, as they require considerably more independent data to be gathered and assessed beforehand. However, they highlight the following:

- Development loans are assessed on both an "as is" basis and "as if complete" basis;
- A large number of these development loans are in default and have not had an independent review of asset values for some time.

From a whole of fund valuation perspective, the Fund is vulnerable to any movements in the value of underlying property and with a large proportion of these loans classified as "development loans" and "in default" it is likely that there will be further downside movement in the valuation of the Fund.

The assets therefore require well considered and efficient strategies to arrest declines in asset values. This is a high priority area for the FTI Consulting team and one where they are well experienced to assist LMIM management.

Deutsche Bank Facility

The Fund has a fully drawn line of credit with Deutsche Bank sitting at \$26.5 million. This facility remains in place and continues to operate in the same manner as before the appointment of Voluntary Administrators to LMIM. We are pleased to report that, since FTI's appointment, Deutsche Bank has not required any amendment of the terms of the approved facility parameters. The Administrators continue to meet the interest costs of this facility from the cash flows of the Fund.

In addition, FTI has maintained the previously agreed progressive reduction in the facility from the Fund cash flows, to ensure they achieve the required maximum facility level of \$25 million by May 2013.

The Voluntary Administrators maintain a close dialogue with Deutsche Bank to ensure they remain fully informed and comfortable with the ongoing operations of this facility. The Deutsche Bank facility is in place to 30 June 2014, with an option to further extend to 30 June 2015, if required.

Capital Distributions to Investors

The FMIF is distributing a total of \$4,270,690.45 to ALL underlying investors, including each of the LM Currency Protected Australian Income Fund (**CPAIF**), LM Institutional Currency Protected Australian Income Fund (**ICPAIF**) and former LM Wholesale First Mortgage Income Fund (**WFMIF**). Payments will be received by investors by the end of May. You will be notified of the cents per unit represented by the payment when the payment is made. Following are the total payments:

- CPAIF - \$1,056,318.30
- ICPAIF - \$81,832.71
- WFMIF - \$844,695.05
- Other FMIF investors - \$2,287,844.39

Members should be aware that the consent of Deutsche Bank was necessary before this distribution could be made. FTI is pleased that it was able to negotiate that consent.

We remind wholesale fund investors that Trilogy will be responsible for distributing the capital payment it receives to the underlying investors in that fund. LMIM made a capital distribution of \$1.7million to the wholesale fund at the beginning of March 2013.

A distribution statement will be forwarded to you when the payment is made and this will set out the cents per unit returned to you.

Update Your Payment Details

As you are aware, capital distributions were made to investors in March 2013. We note that LMIM had incomplete recipient bank account details for some investors at the time which saw some capital distributions returned by the receiving bank. With FTI, we are presently addressing these errors to enable a secondary bank file run to provide these investors with their March distributions as quickly as possible.

If you have recently changed your bank details it is important that you please advise LMIM as soon as practicable by emailing mail@LMAustralia.com.

Income Catch-up for Relevant Investors in the LM First Mortgage Income Fund

FTI is aware of this issue and proposes to make a further payment to those FMIF investors with income distributions outstanding. FTI will provide further communication around the timing of such payment as soon as possible.

Formal Fund and Asset Update

As can be appreciated by the tasks presently being undertaken in reviewing each of the Fund's assets, FTI will require further time before they are able to provide a definitive communication on the Fund. This communication will provide details on:

- The overall Fund valuation (both on an "as is" basis and expectations for total returns as asset strategies are executed);
- Individual asset descriptions and details as to their current strategies;
- Currently identified risks to achieving Fund level outcomes;
- The strategies being employed to manage these risks;
- Details on the expected payment profile for return of investors' capital; and
- Forecast level of distributions in the first few periods.

FTI is committed to continuing to provide investors with a high level of transparency and meaningful information as to their investment in the Fund, as they fully appreciate the impact to individual investors of the closure and decline in capital value of the Fund over the past couple of years, together with the uncertainties created through the Voluntary Administration of LMIM.

We would like to assure investors that FTI is working to maximise the capital return of the fund in a timely manner and trust that FTI's formal fund update will provide further comfort in this regard.

26 April 2013

Our Ref: RCL_8978r1.doc

**CIRCULAR TO INVESTORS AND ADVISERS IN RESPONSE TO TRILOGY
CORRESPONDENCE DATED 17 APRIL 2013**

Dear Sir/Madam

**RE: LM Investment Management Limited (Administrators Appointed) ACN 077 208 461
("LM")**

I refer to the appointment of John Park and I on 19 March 2013 as the Joint and Several Administrators of LM pursuant to section 436A of the *Corporations Act 2001 (Cth)*.

I further refer to three documents recently placed on the Trilogy Funds Management Ltd ("Trilogy") web site which contain considerable misinformation. We now clarify the true position as follows:

Legal Status of LM First Mortgage Income Fund (FMIF)

John Park and Ginette Muller of FTI Consulting ("FTI") are the Voluntary Administrators of LM.

FTI is **not** the Voluntary Administrator of the LM First Mortgage Income Fund ("FMIF"). LM continues as responsible entity/manager of FMIF. Immediately after the appointment of the administrators, they consulted ASIC, which while temporarily suspending LM's AFSL did it in a way which enabled LM to continue as the responsible entity ("RE") of the FMIF (see below).

The appointment of Voluntary Administrators to LM leaves the strategy for FMIF unchanged. Namely, the Voluntary Administrators will continue an orderly sale of all remaining assets of FMIF and endeavour to recover loan monies. Obviously, ASIC has accepted that this is the right strategy and that it can and should continue with LM in administration.

No receiver has been appointed for FMIF. There will be no "receiver driven" sale of assets by FMIF.

Potential Conflicts of Interest

Under the Corporations Act there is a strict requirement that a responsible entity must prefer the interests of members of any Fund it manages where those interests conflict with the personal interests of the responsible entity. This remains the case whether the directors, the administrators or Trilogy is in charge.

Thus if the administrators uncover any improper actions by LM's directors and officers prior to the appointment of voluntary administrators, they will rigorously investigate and **if warranted** take action to gain compensation for FMIF and its members.

Trilogy and its lawyers have, to support their appointment as replacement RE, made many allegations of conflict. LM believes that LM (through FTI who has had extensive experience with such investigations) is best placed to manage any conflicts and does not believe that a new responsible entity will be able to achieve a superior outcome.

Any Manager is likely, at some stage, to face conflicts (and indeed this is specifically acknowledged by the Corporations Act which requires the Manager in that case to prefer the interests of the Fund over its own interests).

FTI has in place systems to manage such conflicts. Conflict management is a common part of any Insolvency Administration. The law of external administration of REs has often encountered such situations, including conflicts with solvent Schemes.

Trilogy state "Drake and his directors appointed FTI and certain LM executives have had a long association with some of the FTI people", this is blatantly incorrect. In accordance with the Corporations Act 2001 (Cth) the administrators have made full disclosure in the Declaration of Independence, Relevant Relationships and Indemnities. On this basis the administrators do not have any conflicts that would preclude them from performing their duties in the interest of all stakeholders. The first contact FTI had with LM or its' staff was in a phone conversation on 8 March 2013, some 11 days prior to the appointment of administrators.

Status of LM Licence

LM holds Australian Financial Services Licence No 220281 which entitles it to manage and operate the fund for specific purposes.

As you may be aware, on 9 April 2013, the Australian Securities & Investments Commission temporarily suspended LM's AFSL for a period of 2 years. However ASIC allowed LM's AFSL to continue in effect as though the suspension had not happened for all relevant provisions of the Corporations Act 2001 (Cth) so as to permit LM, under the control of FTI as Administrators, to remain as the responsible entity of all LM's registered managed investment schemes for certain purposes, which include investigating and preserving the assets and affairs of, or winding up, LM's registered managed investment schemes.

ASIC's decision to suspend the AFSL but allow LM and FTI to continue in this way, ensures that FTI as administrators may perform their statutory and other duties.

LM has, of course, taken legal advice on its position. LM is confident that its AFSL adequately authorises LM through FTI to continue to control the Fund.

Cost Structure of FMIF

The cost structure of FMIF is governed by its constitution. The only costs faced by FMIF are management fees at 1.5% pa of assets and certain prescribed recoverable costs.

The cost structure for FMIF is essentially the same as it would be had voluntary administrators not been appointed. It is assumed that the same cost structure would apply if Trilogy was the manager.

Legal Action by Piper Alderman/Trilogy

A legal action has been commenced in the Supreme Court of Queensland with a request that the Court appoint Trilogy in place of LM as a Temporary RE of FMIF.

The principal object of this switch appears to be that Piper Alderman will then be able to bring "claims against the responsible entity of the Fund, LM Investment Management Limited (LM), its directors and other third parties, including advisors, associated with the fund's demise with a view to bringing a class action". This is on the class action lawyers' website – it has not been disclosed in the documents on Trilogy's website.

The voluntary administrators have already commenced investigations into the demise of the FMIF to identify any such claims - apart from the devastating effects of the GFC on the Gold Coast property market and credit markets.

A switch is not clearly in the interests of members. So, whilst ensuring that any conflicts that may arise are properly managed, LM will be resisting the attempt to switch the RE, as it is not in the interest of members.

Contact Details

Investors are able to obtain further information by either:

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2. You can send an email to mail@lmaustralia.com.

Yours faithfully
FTI Consulting



Ginette Muller
Voluntary Administrator