

NOTICE TO MEMBERS OF THE AIF

Peregian Beach litigation

1. Members will recall that LM Investment Management Limited (Receivers and Managers Appointed) (In Liquidation) (“**LMIM**”) in its capacity as the responsible entity of the LM Australian Income Fund (the “**AIF**”) is a defendant in a proceeding brought by KordaMentha Pty Ltd (“**KordaMentha**”) in its capacity as trustee of the LM Managed Performance Fund (“**MPF**”) regarding certain transactions relating to loans (and associated supporting securities) provided by both the MPF and AIF to a borrower, Peregian Beach Pty Ltd (“**Peregian Beach Proceeding**”).
2. The Peregian Beach Proceeding was commenced in September, 2013 and LMIM as responsible entity of the AIF filed a defence in July, 2015. The matter has progressed through the various stages of litigation and the trial of the matter could possibly be heard in mid 2016. The parties have, however, arrived at a settlement of the dispute and wish to have the entry into the settlement agreement sanctioned by the Court.
3. LMIM has applied to the Supreme Court of Queensland for directions pursuant to s.96 of the *Trusts Act 1973* (Qld) to enter into a proposed Deed of Settlement with KordaMentha to resolve the Peregian Beach Proceedings (“**s.96 Application**”).
4. The s.96 Application is to be heard in the Supreme Court of Queensland at QEII Courts of Law Complex, 415 George Street, Brisbane at 10:00am on 24 November, 2015.
5. The purpose of this communication is to:
 - (a) explain the terms of the proposed settlement to members of the AIF, including the rationale behind the matter being settled on the terms proposed; and
 - (b) provide Members with sufficient information should they wish to appear and make submissions to the Court at the hearing of the s.96 Application.
6. More fulsome information and all documents which have been or will be filed in court in respect of the s.96 Application may be found at www.lminvestmentadministration.com.

The proposed settlement

7. The liquidators of LMIM have defended the Peregian Beach Proceedings on behalf of LMIM on the basis that there are good arguable defences to the claims alleged by KordaMentha. The commercial reality is, however, that some settlements may not always reflect the actual legal rights of parties. In the liquidators’ view, this is a matter where a settlement based upon commercial considerations rather than strict legal rights is appropriate and desirable.

-
8. LMIM and KordaMentha have reached an in-principle agreement to settle the Peregian Beach Proceedings. A proposed Deed of Settlement is being drafted between the parties but is conditional upon each of LMIM and KordaMentha receiving judicial advice to the effect that they would be justified in carrying out the settlement.
 9. In essence, the terms of settlement operate such that the monies the subject of the Peregian Beach Proceeding, which are held on trust by The Trust Company (PTAL) Limited, the custodian of the assets of the AIF, being the amount of approximately \$1.95 million, is to be split between the MPF (receiving \$675,000.00) and the AIF (receiving the balance together with all accretions, being an amount of approximately \$1.275 million).
 10. If the parties agree on the terms of a Deed of Settlement before the substantive hearing of the s.96 Application, LMIM will enter into the deed and a copy of the executed deed will be exhibited to an affidavit to be sworn and filed at the hearing of the s.96 Application.
 11. If the parties do not agree on the terms of the Deed of Settlement before the substantive hearing of the s.96 Application, LMIM will nevertheless proceed to seek judicial advice as to the merits of the in-principle agreement along the broad commercial terms of the most current draft deed of settlement between the parties, a copy of which will be exhibited to an affidavit to be sworn and filed at the hearing of the s.96 Application.
 12. So far as is possible, LMIM wishes to maintain the confidentiality of any such deed of settlement put before the Court and will seek orders as regarding its confidentiality at the hearing of the s.96 Application.
 13. The liquidators of LMIM have formed the view that it is in the best interests of members of the AIF to settle the Peregian Beach Proceeding on the proposed settlement terms by weighing up the following factors:
 - (a) the confidential legal advice they have received from Queens Counsel and Junior Counsel on prospects and the win/lose analysis in respect of the Peregian Beach Proceeding (in respect of which legal professional privilege is not waived and these advices are to remain confidential);
 - (b) the liquidators of LMIM's professional fees and costs to date in dealing with the Peregian Beach Proceeding are \$22,109.50;
 - (c) LMIM's legal costs and expenses incurred to date in defending the Peregian Beach Proceeding are approximately \$356,000.00;
 - (d) the liquidators of LMIM's future professional fees and costs in dealing with the Peregian Beach Proceeding up to the conclusion of a trial are estimated to be approximately \$44,000.00;
 - (e) LMIM's future estimated legal fees and expenses in defending the Peregian Beach Proceeding up to the conclusion of a trial are expected to be approximately
-

\$485,000.00 (as estimated to the liquidators of LMIM by LMIM's solicitors);

- (f) the quantum of the proposed settlement is within the range of the possible best to worst case outcomes of the Peregian Beach Proceeding should the matter proceed for determination at a trial;
- (g) the liquidators of LMIM are cognisant of the comments made by a number of judges regarding members' funds being spent on litigation rather than there being a timely return of funds to members;
- (h) the uncertainty which exists whether any policy or policies of insurance potentially held by LMIM will respond to any claim made by LMIM regarding the Peregian Beach Proceeding, any loss to the AIF, including as a result of the proposed settlement, and the impact of the proposed settlement upon any such claim for indemnity; and
- (i) the commerciality of the proposed settlement of the Peregian Beach Proceeding from the point of view of the AIF members, including:
 - (i) that the settlement will bring certainty to the members of the AIF;
 - (ii) the settlement will ensure that there will be a return to members of the AIF;
 - (iii) the settlement will enable the liquidators of LMIM to bring about the timely and efficient winding up of the AIF, including effecting a distribution to members (hopefully) prior to the end of the financial year;
 - (iv) the settlement removes the risks associated with litigation, including the risk of an adverse costs order against the AIF;
 - (v) the settlement obviates the ongoing costs associated with the litigation, including the costs of:
 - A. undertaking disclosure of potentially thousands of pages of documents, (both electronic and hard copy);
 - B. the costs of engaging experts;
 - C. the costs of obtaining witness statements;
 - D. the costs of subpoenas; and
 - E. the costs of a trial which would likely involve both senior and junior counsel;

-
- (vi) although LMIM has obtained an order for security for costs against the MPF in the sum of \$375,000.00 by way of a bank guarantee, if LMIM is ultimately successful at a trial and is awarded costs, it is unlikely that LMIM will recover all of the legal costs incurred, nor the liquidators fees and remuneration in running the trial; as such, the longer the Peregrine Beach Proceeding continues the greater the cost to the AIF and the greater the risk that the MPF may not have sufficient funds to meet an adverse costs order; and
- (vii) the time costs of money from the point of view of the members of the AIF and the timeliness of the payment of a dividend to AIF members.

Information for Members of the AIF

14. The hearing of the s.96 Application is set down before Justice Jackson in the Supreme Court of Queensland at QEII Courts of Law Complex, 415 George Street, Brisbane at 10:00am on 24 November, 2015.
15. If a member of the AIF wishes to support or oppose the s.96 Application or to argue that any different order or direction should be made, they can do so by attending before the Court on that date, either personally or by engaging a legal representative for that purpose. Any member wishing to retain lawyers should do so promptly to ensure that there is sufficient time to brief those legal representatives.
16. Alternatively, members of the AIF can send correspondence about this matter to the liquidators of LMIM addressed to enquiries@lminvestmentadministration.com and the liquidators will place all of those emails before the Court at the hearing on 24 November, 2015.
17. All Court documents to be relied upon by the liquidators of LMIM in support of the s.96 Application will be posted on the website www.lminvestmentadministration.com.

DATED: 10 November, 2015