

25 July 2016

Our Ref: GOK_8981r2

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 Currency Protected Australian Income Fund (the Fund) (CPAIF)

I refer to my previous update dated 15 January 2016. 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.

***Attached** is the thirteenth update from the Court Appointed Receiver of the Assets of the LM First Mortgage Income Fund (FMIF). As previously advised, distributions cannot be made from the Fund until such time as a distribution from the FMIF. I make no comment as to the contents of the update on the FMIF but note at this time the receiver of the FMIF has not provided an expected timeframe for distribution.

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

1. Outstanding Tax Lodgements

As noted in my previous update, my office became aware of various outstanding taxation lodgement obligations of the Fund dating from around 2006 onwards.

I have recently requested transfer of the Fund's taxation matters from the Fund's former accountant to WMS Chartered Accountants (WMS), whom are appointed to also prepare the Fund's management accounts and financial reports. WMS have agreed to assist with the taxation requirements of the Fund notwithstanding the Fund is currently without assets to meet those costs. The costs will be deferred until the Fund receives a distribution from the FMIF.

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. The outstanding lodgements will need to be satisfied prior to any further distributions to members.

2. Claim by the Receivers and Managers for the FMIF

My office is continuing to assess the claim against the Fund by the Joint and Several Receivers and Managers of the FMIF for contribution to operational funding of the LMIM Gold Coast office. I have recently received an updated claim in the amount of \$166,948 (excluding GST) for the period 26 July 2013 to 23 December 2014. However, I confirm the previously requested further substantiating information is yet to be received from the Receivers and Managers of the FMIF.

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 6 of this report. The claim, if valid, will be paid from the assets of the Fund when available.

3. Claim by Custom House Currency Exchange (Australia) Pty Ltd (Custom House)

As noted in my previous report, Custom House holds registered security interests in relation to LMIM in its capacity as Responsible Entity for the CPAIF and the LM Institutional Currency Protected Australian Income Fund (ICPAIF). LMIM granted the security interests only in that capacity and accordingly the property charged is limited to the assets and undertakings of those respective funds.

On 16 November 2015, Custom House exercised its rights and appointed Said Jahani and Gayle Dickerson of Grant Thornton as Receivers and Managers over LM Investment Management Ltd in its capacity as responsible entity of the CPAIF and the ICPAIF. I understand Custom House is claiming \$1,604,949.77 before interest and costs in respect to the unfavourable close-out of the foreign exchange trading position in 2013. This claim, if valid, will be paid from the assets of the Fund when available.

Custom house are also claiming security over amounts held in holding accounts for this Fund as follows:

Great British Pound	255.74
Japanese Yen	48,783
New Zealand Dollar	1,366.05
US Dollar	199.40

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 the correct treatment and distribution of these funds once recovered.

4. 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) July 2010.

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.

5. Financial statements and audits

The financial statements for years ended 30 June 2013, 30 June 2014 and 30 June 2015 have not been prepared as the Fund is without assets. Preparation, audit and lodgement of the final audited accounts will commence following a distribution from the FMIF, being the Fund's principal investment.

In a recent meeting with the Australian Securities and Investments Commission to discussions centred on the delays in relation to the audits of the financial statements and the options moving forward to replace the current auditors and expedite the finalisation of the wind-up of the Fund. In a separate meeting with the current auditors it was confirmed they will not be appointed to complete any future audit work on the Fund. I am in discussions with a new audit firm whom I believe will be better placed to complete the final audit/s in a more efficient and timely manner once the Fund is a position to be finalised.

6. Indicative Net Asset Value

I note the Court appointed Receiver of the FMIF in his recent report to investors has provided an estimated unit price of 14.10 cents in the dollar being the mid-point of the estimated return range of 13.60 and 14.60 cents in the dollar (as at 31 March 2016).

An indicative net asset value of the Fund as at 30 June 2016 is calculated as follows utilising the current estimated unit price of the FMIF (and the number of the units held in the FMIF by the Fund (per the Funds records):

	AUD	AUD
Cash at Bank		100,729
LM FMIF Investment		<u>17,019,071</u>
		17,119,800
<i>Less: expenses of the Fund</i>		
Custodial Fees	(18,901)	
Legal Fees	(408)	
Accounting Fees	(5,100)	
Contingent Liabilities (including FMIF claim)	(199,766)	
Custom House Claim		
	(1,604,950)	
Liquidators' remuneration and expenses	<u>(70,822)</u>	
		<u>(1,899,947)</u>
Indicative Net Assets as at 30 June 2016		<u>15,219,853</u>
Estimated Units AUD equivalent at 30 June 2016		133,965,118

Estimated Unit Price as at 30 June 2016	0.1136
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I note the estimated asset and unit values are subject to daily market fluctuations and are subject to change without notice to members. I also note the expenses listed are excluding GST where applicable.

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 invoiced or yet to be incurred;
- Any additional amounts payable to Custom House in relation to interests and costs, if any; and
- Any movements in the estimated return from the FMIF since 31 March 2016.

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.

7. Custodian

As per my previous update, the Responsible Entity ceased the custodial services at 31 March 2016. Please refer to comments in my previous report for further information.

8. Contact Details

Investors are able to obtain further information by either:

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

Yours faithfully
FTI Consulting



John Park
Liquidator