KordaMentha

UPDATE TO INVESTORS

30 April 2013

Dear Investor

LM Managed Performance Fund
ABN 95 595 833 174 ('the Fund')

This is our second update to investors of the Fund.

We are committed to ensure that investors are properly informed with respect to the Fund's financial position and ongoing activities. This update aims to provide investors with an understanding of the work undertaken to date and seeks to clarify a number of key points in respect to critical matters including:

- The purpose and benefits of our appointment;
- The reasons and purpose of the Court Application this Thursday regarding which you have recently received a number of emails and documents;
- A new application that today has been brought by the former trustee LM Investment Management Limited (Administrators Appointed) ('LMIM').

Purpose of the appointment

The appointment of KordaMentha and Calibre Capital Limited as joint Trustees ('the Trustees') of the Fund was made by the Honourable Chief Justice de Jersey of the Supreme Court of Queensland. This followed His Honour's decision to terminate the role of LMIM as a result of concerns relating to the independence of LMIM and its Administrators (from FTI Consulting).

In this regard, His Honour noted the following regarding his decision to appoint us as trustees of the Fund:

- *"…a new trustee of the instant Fund should left to act solely in the interests of that fund, not be distracted by the interests of other funds and those of the company itself";*
- the potential complexity of the issues to be investigated, warranted the appointment of *"a trustee who can give their undivided attention to this particular fund";* and
- [he was] *"significantly influenced by the sorts of potential conflicts of interest raised by Mr O'Donnell, (who appeared for seven of the Respondents). They exist and they would render it awkward for the administrators to act also as trustees and were they appointed as trustees, their appointment may turn out to be short lived."*

Accordingly, it is emphasised that KordaMentha and Calibre Capital Limited come to the role as trustees without involvement in any other LM fund and represent the interests of the investors in the LM Managed Performance Fund only and without bias or any conflict of interest.

New application regarding appointment

We have today been served with an application to set aside the orders of Chief Justice de Jersey in relation to our appointment. This application has been filed by the Administrators of LMIM and LM Administration Limited (Administrators Appointed) ('LMA') and is based upon arguments relating to the Australian Financial Services Licence ('AFSL') held by the Trustees.

The Trustees' view is that the application to set aside our appointment is completely invalid and we are very confident with respect to the nature of our AFSL being sufficient and appropriate for our role as Trustees. We have taken legal advice in this regard.

We emphasise that:

- The Trust Deed for the Fund requires that LMIM resign on the appointment of Administrators. Accordingly LMIM could not remain as trustee and a new trustee appointment was necessary.
- As detailed below there are a number of transactions between the Fund and LMA/LMIM which require further investigation including the pre-payment of management and service fees from the Fund to LMA of $20.8m. As the Administrators of the former trustees, FTI Consulting have a material conflict of interest in investigating such transactions which Chief Justice de Jersey referred to in his judgement.

In the circumstances we are disappointed that the Administrators have filed this application, which on any view, can only lead to more costs and expenses in administering the Fund and further delay our asset protection process on behalf of investors.

Any investor who wishes to indicate their support for KordaMentha Pty Ltd and Calibre Capital Ltd should contact us as soon as possible.

Court Application process

All investors should have received by emails on 23, 28 and 29 April 2013 notices and documentation pertaining to a Court Application that was initially heard in the Supreme Court of Queensland in Brisbane on Monday, 29 April 2013. There has been some confusion from investors in relation to these emails but we emphasise that service of these documents was legally required as part of the legal action we have undertaken.

A summary of the legal action and relevant issues is as follows:

- When the Court ordered the removal and replacement of LMIM as the former trustee, the loan agreements, securities, guarantees and other entitlements that were held by the former trustee on behalf of the Fund, were not automatically transferred to the new trustee.
- The purpose of our application is to ensure that loan agreements, securities, guarantees and other entitlements are held by the new Trustees for and on the behalf of investors.
- Accordingly, the Court Application is extremely important for the Fund as the transfer of the loan agreements, securities, guarantees and other entitlements are required to enable the new trustees to properly control the underlying assets of the Fund and otherwise take actions to increase the return to investors.
- It is urgent to quickly gain control of such assets and/or otherwise take necessary recovery actions especially with respect to the Maddison Estate development, loans and prepayments to related parties which are discussed below.
- The orders which the Trustees are seeking are currently being opposed by the former trustee and FTI Consulting as the Administrators of the former trustee.

If you have any queries in relation to the legal action please do not hesitate to contact us.

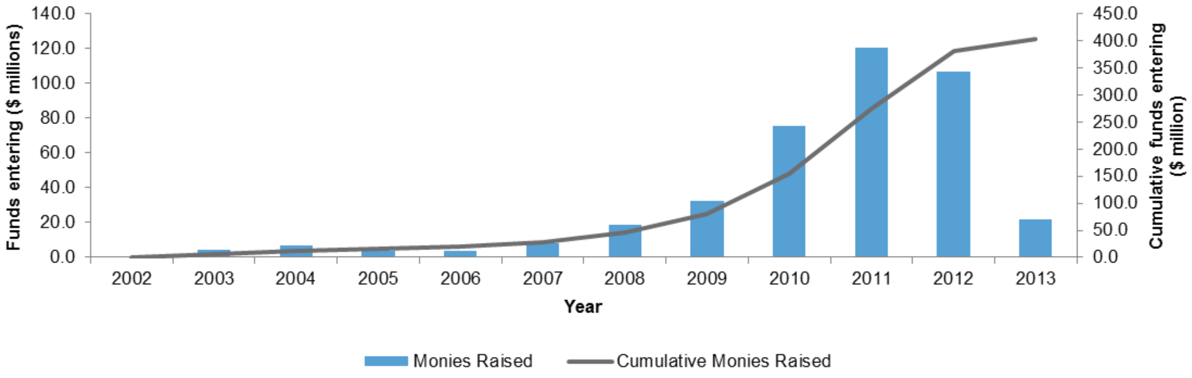
Again, any investor who wishes to indicate their support for KordaMentha Pty Ltd and Calibre Capital Ltd with respect to the vesting process should contact us as soon as possible.

Actions and investigations to date

- We have commenced a review of:
  - all of the loans of the Fund and especially the Maddison Estate development;
  - the security and corporate structure of each borrower of the Fund.
- With respect to Maddison Estate, our priority is to complete the master plan concept and source development finance.
- Suncorp, an Australian Financial Institution and the first mortgagee of Maddison Estate, has been advised of our appointment and in cordial meetings with their representatives they have expressed a desire to be refinanced which we are working towards facilitating.
- We are yet to be provided by LMIM and LM Administration Pty Ltd (Administrators Appointed) ('LMA') certain documentation pertaining to the Maddison Estate development which is crucial in determining the project's feasibility and strategic direction. We are considering our legal options in this regard as the missing documentation is vitally important to progressing the development.
- Valuers have been engaged to conduct a formal independent valuation of Maddison Estate.
- Site visits have taken place in respect to properties relating to loans of the Fund known as:
  - Maddison Estate
  - Lifestyle Investments
  - Peregian Beach
  - Tall Trees Mandurah
- The Australian Securities and Investments Commission ('ASIC'), Australia's corporate regulator, has been notified of our appointment. Preliminary meetings with ASIC have been held in relation to the status of the Fund and our priorities as Trustee.
- We have commenced a review of monies held by the Fund which arguably should have been, in some cases "quarantined" and returned as they were for instance inadvertently paid to the Fund and/or there were no units issued with respect to the monies.
- We are collating redemption requests lodged by investors but emphasise that there is no queuing system in place and investors are not required to lodge redemption claims at this point in time.
- We have commenced a review of related party transactions including:
  - the pre-payment of management and service fees from the Fund to LMA of $20.8m (the majority of services relating to this amount remains outstanding);
  - the loan by the Fund to LM founder, Mr Peter Drake, of $17m.
- We are considering various legal and other recovery actions with respect to the above transactions.
- We are reviewing all recent transactions in the Fund's bank accounts, especially any transactions involving related entities.

Preliminary findings

- As at the date of our appointment as the Trustees of the Fund, the value of investor units totalled $403.8m (according to information provided by LMA. A breakdown of the current unit value by monies raised per annum is as follows:



Source: Investor information provided by LMA, all values in AUD

- The Fund has approximately AUD $9m (including quarantined funds) in cash held with various financial institutions.
- At present the cash is unable to be accessed because the Administrators of the former trustee have claimed an equitable lien over the monies. It is anticipated that legal action will be required to resolve the claimed equitable lien.
- Prior to our appointment, Fund monies have been applied to 19 separate loans, six of which (totalling $23.5m) we understand are fully impaired (meaning that there is unlikely to be any recovery for the Fund after repayment of monies owing to the lender with first security) whilst the other 13 loans are in default and are not servicing interest at this time.
- Of the 19 loans, 17 loans are secured by second mortgages only.
- A number of the underlying borrowers for these loans have provided first mortgages to other funds associated with the LM Group (mainly LM First Mortgage Income Fund and LM Australian Income Fund).
- The definitive value or recoverability of the monies raised by the Fund is difficult to ascertain at this point and is subject to our ongoing investigations.
- Since January 2013 it appears the Fund paid an additional $7.5m to LMA and we are trying to ascertain the consideration for these monies.
- In the 2013 calendar year the total amount of Fund monies paid to various members of the LM Group total approximately $8.9m.
- Redemption requests pursuant to the Fund’s Information Memorandum and Trust Deed are at the sole discretion of the trustee and appear to have been denied for some time by the former trustee because of insufficient cash available in the Fund and the illiquidity of assets.

Ongoing status of the Fund

We are conscious of the level of frustration and anxiety all investors have with respect to their monies invested in the Fund and the wish of many investors to claim redemptions.

However, in the interest of fairness to all investors and, in view of the current net asset position of the Fund and ongoing investigations outlined above we confirm that at this time, the Fund remains closed and no further monies will be accepted or distributed by the Fund.

Further updates and communication with investors

We will provide updates to investors on an ongoing basis with respect to all relevant matters in relation to the Fund.

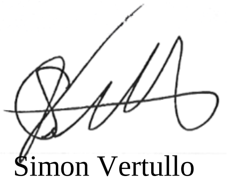
Investors are able to obtain further information in the interim as follows:

- All investors can telephone +61 7 3338 0286
- All investors can access the KordaMentha website at http://www.kordamentha.com/creditor-information/australia/109

Additionally, specific questions may be emailed to lminvestors@kordamentha.com. We will answer your questions as soon as possible.

If your contact details have changed since your initial investment, we ask that you forward these details to the above email address.

Yours sincerely



Simon Vertullo
Partner
KordaMentha