



Fourteenth Statutory Managers' Report

Hubbard Management Funds

31 July 2013

Introduction

As you know, Graeme McGlenn, Richard Simpson and Trevor Thornton were appointed statutory managers of Hubbard Churcher Trust Management Limited and Forrester's Nominee Company Limited, which jointly hold the majority of assets in Hubbard Management Funds (HMF).

This report has been prepared to provide an update to investors on the status of their investment in HMF. Copies of our previous reports are available on our website www.grantthornton.co.nz.

In December 2012 we received final directions from the Court on distribution. We wrote to all investors providing details of the payment they will receive from the Capital Return Pool and an estimate of their entitlement to the Surplus Asset Pool. To date each investor has been paid 45 cents in the dollar including the latest payment of 5 cents made last week from the Capital Return Pool.

We will continue to make payments as and when assets are realised and funds are available. Given the nature of the remaining assets to be realised it is not possible to provide dates for future repayments.

HMF valuation

Market update

Equity markets have shown mixed performance over the first six months of the 2013 calendar year. Of particular interest to HMF investors is the significant decline in the resources sector following the weakness in the gold price. HMF has significant residual exposure to this sector. The smaller resource companies have been particularly hard hit and this has adversely impacted the HMF portfolio valuation.

The liquidity of the stocks held by HMF in this sector is poor and this has limited the ability for HMF to exit the stocks for reasonable value. This weakness will impact on our realisation processes.

Realisations of assets

Since our last report we have completed the realisation of the more readily saleable assets: We are now working on the private equity investments and less liquid assets.

We can report that to date we have sold a significant private equity holding in Direct Capital IV for 100% of the net asset value following a successful tender process with a number of competing bids being received.

In early July we sold the holding in Scales Corporation for \$2.30 per share after receiving a dividend of 20 cents per share. The funds released from these transactions have now been paid to investors.

We continue to approach parties and set up competitive processes to ensure we receive the best value possible for investors from these assets. We remain confident that we will achieve a complete repayment of capital to investors however the weakness in the resource sector is currently impacting negatively on prospects for the surplus asset pool.

Payments to investors

We have now made four payments to investors who are eligible under the Capital Return Pool. This pool has now been repaid to 45 cents in the dollar. This is in addition to the interim distribution made to investors in February 2012. No payments will be made from the Surplus Asset Pool until all entitlements under the Capital Return Pool have been paid. We aim to complete Capital Return Pool payments during the first half of 2014 subject to market constraints.

We remain committed to making payments to entitled investors promptly as and when we realise assets.

Claims against HMF assets

Since our last report we have resolved all claims between the Mrs Hubbard, the Hubbard family and the statutory managers. This is positive for the investors as it allows for the orderly realisation of assets to proceed without the distractions and impacts of possible litigation.

Additionally, a handful of investors that have been able to successfully assert tracing claims over specific assets have been contacted and the majority of these claims have now been settled.

There is still one significant claim to be finalised. This matter will go before the Court for directions to provide certainty in the matter for all parties. We are working constructively with that party on the matter.

Finally, the balance due to HMF from Aorangi Securities Limited (“ASL”) will be considered by an independent party. We have appointed an independent accounting firm to consider this matter and expect to finalise this matter before year end. Presently HMF is receiving payments from ASL based on a balance stated in the ASL books. The disputed items, which would increase the entitlements of HMF, will have minimal impact on the overall outcome for HMF investors if the HMF claim is successful.

Some HMF investors who were recorded as being allocated investments in ASL by Mr Hubbard have questioned the recent Court ruling in terms of which ASL investors will receive most, if not all of their capital investment back. We confirm that this development has no impact on the Court ruling for the return of funds to HMF investors from the Capital return Pool or the Surplus Assets Pool.

Administration costs

Costs

The total costs incurred in the statutory management from June 2010 to June 2013 are as follows:

	Total since appointment \$m
Grant Thornton fees and disbursements	3.131
Legal costs	1.691
Other third party disbursements	0.962
GST	0.823
Total	\$6.607

Our costs replace the administration fees previously charged by Mr Hubbard. Our work has been complex and involved. In previous reports we have set out the nature of the tasks undertaken. In the latest period the emphasis of our work has changed to include:

- Asset realisations and management of that process
- Payments to investors
- Resolution of disputes and various claims
- Review of documentation to locate additional assets and unclaimed dividends from past years
- Clearance of investor queries.

Oversight

We requested the costs of our administration to be independently reviewed to provide assurance that they were in order and the Ministry of Business, Innovation & Education appointed a reviewer for that purpose.

Other matters

Investor liaison

The Grant Thornton website at www.grantthornton.co.nz provides links to our past reports.

Next report

We expect to provide you with a further report during February 2014 covering the period to 31 December 2013.

Disclaimer

The statements and opinions expressed in this report have been made in good faith, and on the basis that all information that we have relied upon is true and accurate in all material respects. In preparing this report we have relied upon, and have not necessarily independently verified, the information and explanations provided to us and we express no opinion as to the accuracy or completeness of that information, other than to note that our investigations are on-going.

The contents of this report are based on the information available to us at the time we compiled the report. If we become aware of any additional information not known to us at the time we compiled this report, we reserve the right, but shall not be obliged, to review or update this report.



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