



Tenth Statutory Managers' Report

Hubbard Management Funds

29 March 2012

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 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 along with answers to frequently asked questions.

As this is an update report, readers may need to review previous reports to gain contextual information. Our last report, dated 30 November 2011, provided a detailed commentary on the issues that are causing difficulty in distributing HMF's investments to its investors.

We have now filed papers in the Court for determination and the case will be heard on 21 May 2012 and 22 May 2012.

We will be making an interim payment to a significant number of HMF investors on 30 March 2012.

Interim distribution to investors

As we explained in our last report, it was necessary for us to apply to the Court for assistance in determining the fairest way of working out what each investor in HMF should receive. This was due to the complex issues we found. The Court has scheduled 21 and 22 May for the matter to be heard. As that is still some way off, we have been working, with the Court's encouragement, to see if it would be possible to make an interim distribution to investors.

This has been a difficult task and we have needed to be conservative when assessing how much might be able to be paid before the court issues its judgement. After a detailed review of the position, which included discussions with the Court appointed lawyer acting for the investors, we concluded that an interim distribution could be made to nearly all of HMF's investors. We recently asked the Court to approve the basis for making an interim distribution and we are pleased to advise that the Court has done so.

We plan to make an interim payment of capital directly into the bank accounts of eligible investors on 30 March 2012.

Interim distribution based on statements

As we noted in our last report, in order to get the matter before the Court, we filed documents that contended that HMF comprised a collection of individual investment plans. There is a counter argument that will be examined by the Court that HMF is an investment pool. If the Court agrees with our proposal, then investors are likely to receive a share of HMF's investments based principally on the investments showing on their individual investor statements as at 31 March 2010. These will be adjusted for any shortages of assets held and for transactions from 1 April 2010 to the date of statutory management, which commenced on 20 June 2010.

The calculation of an interim distribution is further complicated for those investors whose statements as at 31 March 2010 included an amount of cash, or those investors who joined HMF after 31 March 2010 who had no shares allocated to them.

The total amount of cash owing to investors as showing on investors' statements as at 31 March 2010 was \$6.101m, before adjustments, which took the total to \$12.601m. However, the amount of cash actually available in HMF's bank account at 31 March 2010 was only \$234,000, resulting in a shortfall of cash of \$12.357m.

At the date of statutory management commencing on 20 June 2010, the bank account was overdrawn. Our proposal to the Court is that the unallocated shares held by HMF as at 20 June 2010 be used to help make up the cash shortfall for those investors on the basis that the cash would have been used to invest in these shares.

However, if our proposal is not approved by the Court, then those investors with a cash component included in their statements may not receive any payment for that component of their investment. If the Court finds for the pooling option there would be further calculations needed for the allocations to investors.

Cash balances not included

We must consider this situation when calculating the amount of an interim distribution to investors. Accordingly, we have decided, and the Court has confirmed, that we are unable to include the value of cash showing in investors' accounts when calculating the amount of the interim distribution for individual investors. This means that investors, whose statements at the date of statutory management showed all of their investments were in cash, will not receive an interim distribution at this time. Those investors whose statements included cash and other investments will receive an interim distribution based on the value of the other investments only.

We realise that this decision will not be welcomed by those investors who are affected by this situation. However, should the Court either confirm our proposal for the distribution of HMF's investments, or if it rules that HMF is a pool, investors with a cash component on their investment statements as at 31 March 2010 should still expect to receive some payment from HMF.

Amount of the Interim Distribution

The total amount of the interim distribution is at our discretion but, under the Court order, it must not exceed \$12m. The level of the distribution must take into account the need to manage the Fund's underlying investments in a responsible manner.

We have decided to distribute \$9m as an interim distribution after full consideration of current circumstances of HMF. This will allow a further distribution shortly after the Court has given directions on the final distribution methodology to ensure all investors are treated equally in terms of that direction. This will particularly assist investors who were recorded as holding cash in their statements, as this part of their portfolio is not eligible for an interim distribution at this time.

Payment advice

We will provide investors with a notice showing how much we will transfer to their bank account in respect of this interim distribution, provided that we have received bank account details for the purposes of making a direct credit payment. If we have not received bank account details, then the payment will be delayed. We will make a further payment run on 20th April 2012 for investors who provide us with the missing bank details by 13 April 2012.

Transfers of shares to investors

We have previously indicated that it might be possible to transfer shares to investors rather than settling entitlements in cash. However, as we have previously reported, HMF did not always own all of the shares that appeared on investors' statements and similarly cash that was reported to be held was significantly overstated.

Therefore, subject to any specific investments owned by HMF that are subject to tracing, in settling amounts with HMF's investors, it is not possible to allocate specific shares to investors.

Historically, Mr Hubbard only ever provided distributions in cash. Accordingly, all distributions to investors will be in cash.

HMF valuation

Market update

Capital markets got off to a strong start this year, with equities and bonds posting positive returns in a number of regions. This follows the flat New Zealand and weaker Australian performance for December 2011. Economic data for the United States suggested the world's largest economy is staging a gradual recovery and fears of a second recession were scaled back. News out of Europe regarding the ongoing sovereign debt saga was mostly positive. This has buoyed both the New Zealand (NZX 50 up 1.6%) and Australian (ASX200 up 3.39%) markets for the period December 2011 to February 2012 period. The NZD and AUD continue to hamper export industries in both markets, while Fonterra's dairy auction prices fell over the period.

With regard to HMF's specific investments:

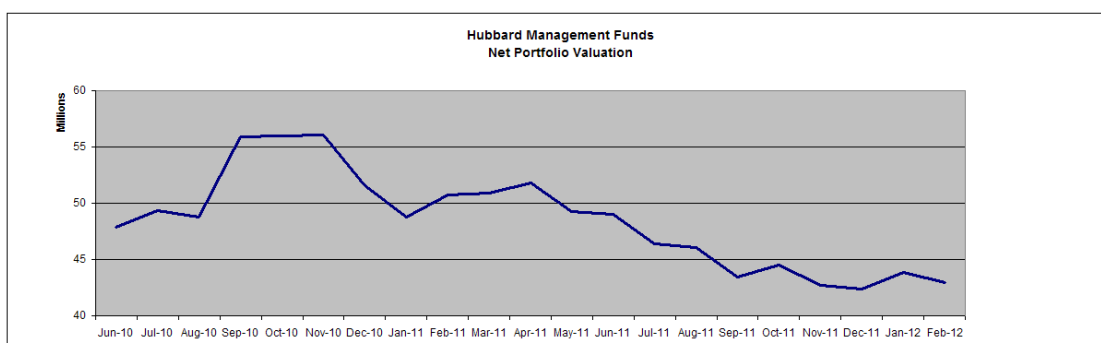
- Diligent (up 51.56%) continues to perform well based on expectations of future earnings.
- Ebos Group (up 12.93%) beats earnings expectations and continues to make acquisitions.
- Ryman Healthcare, Metlife Care & Summerset (listed in Nov 2011) all performed well (up 9.54%, 5.26% and 5.88% respectively) reflecting the positive demographic trend in the aged care sector.
- Fisher & Paykel Appliances traded off its low of 33c in December to end the period up 15.71%. They still face challenges in the strong NZD and low-cost overseas manufacturing.
- Mainfreight (down 8.97%) was subject to some profit taking on the back of its Q3 result, which was still up 36.4% on the previous year.
- NZ Oil & Gas traded up 5.71% after the sale of its Pike River "asset" by the receivers, stronger oil price and confirmation of the insurance payout.
- Smartpay continues to face headwinds trading down 5.56% over the period, dropping to 7c before recovering on the back of recapitalisation plans and management changes announced towards the end of February.
- Olympus Pacific Minerals (up 20%) made solid ground with some positive announcements on gold production.

HMF has needed to reduce its position in many of the listed stocks over the last two to three weeks to fund the interim distribution we are making on 30 March 2012. This will reduce the overall

liquidity of the portfolio as many of the remaining investments are of a medium to longer-term nature.

Portfolio Valuation

The valuation of the overall HMF portfolio, after allowances for shares that may be subject to claim by external parties, has increased by approximately \$250,000 in the period from November 2011 to February 2012. As at 29 February 2012 the estimated portfolio value was \$42.961m. The movements in overall portfolio value are set out in the graphic below.



Activity from 1 March 2012 to 23 March 2012

During this period we have sold a number of the more liquid investments to fund the interim distribution to be made this week to investors. In the period from 1 March to 23 March 2012 we have sold approximately \$6.5m of investments with further investments being sold this week to complete the funding requirement for the interim distribution.

Since the commencement of statutory management, in conjunction with our expert share broker advisors, we have been carefully researching the companies where HMF has investments. Based on this in-depth understanding, we have carefully selected shares for sale to fund the interim distribution. In conjunction with our advisors, we have considered each company's recent performance and outlook to ensure that the shares selected for sale were relatively fully priced so as to maximise investor returns.

Where our advisors consider there is further upward price pressure on the shares, we are continuing to hold so as to maximise investor returns in the medium term. We have not sold any shares at less than the current prices quoted on the NZX or ASX and our brokers have carefully managed our market actions so as not to negatively influence the prices achieved.

It is our intention to distribute the funds as close to the date we realise the assets as possible. This is to ensure that, to the fullest extent possible, investors who choose to reinvest into the share market can do so at similar levels to the markets in which we sold shares.

Should investors wish to reinvest the funds from the interim distribution, we strongly recommend that they seek competent professional advice from a registered share broker or financial advisor. Information on investing is available on the website of the Financial Markets Authority.

Administration costs

Costs

The total costs incurred in the statutory management from June 2010 to February 2012 are as follows:

	Total since appointment \$m
Grant Thornton fees and disbursements	1.628
Legal costs	0.930
Other third party disbursements	0.703
GST	0.475
Total	\$3.736

Administration fee

As noted in previous reports, Mr Hubbard previously charged investors a management fee of between 1% and 1.5% of the funds recorded on statements as at 31 March in each year. From June 2010 to February 2012 this would have amounted to between \$1.12 m and \$1.68 m.

Besides the on-going management of HMF, much of our work has been to reconstruct and analyse records and general investigation and correction of past accounts and reconciliations. Additionally, we have needed to prepare materials for the filing with the Court to get directions on how to equitably resolve the difficulties of HMF and to make an interim payment to investors.

Oversight

We requested the costs of our administration to be independently reviewed to provide assurance that they were in order and the Ministry of Economic Development appointed a reviewer for that purpose.

Other matters

Claims against HMF's investments

There are claims against HMF's investment by financiers alleging the shares concerned have been given as security for loans provided to Mr Hubbard or businesses associated with him. These claims are before the Court and the issues will not be resolved until the case is heard and a judgement provided. The case is scheduled to commence on 30 April 2012. The current value of the investments concerned is \$2.1m. These investments have, in the main, been allocated to investors. We will be vigorously defending these claims as they have a negative impact on the assets of HMF.

In addition, representatives of Mr Hubbard's family are contesting the transfer of some shares from Hubbard interests to HMF by Mr Hubbard. We are working with the family representatives to examine the background to these transfers. We will report further in our next report as we expect to have these matters resolved by then.

Taxation

We have been asked for taxation statements by a number of investors so that they may complete their tax returns.

We are unable to allocate any of HMF's income until we know who is entitled to it, which will be after we have received the Court's judgement. As previously noted, the matter will be heard in May this year.

Should this situation cause difficulty to any investor, we suggest they discuss the matter with their taxation adviser or the Inland Revenue Department.

Investor liaison

The Grant Thornton website at www.grantthornton.co.nz provides answers to frequently asked questions. This web page also provides links to our past reports.

The papers relating to the forthcoming Court case have been placed on a secure website which is restricted to investors and their advisors. We have separately written to all investors in December 2010 setting out the process for gaining access to this site. The website is being updated regularly with new papers as and when these become available.

Next report on Hubbard Management Funds

We expect to provide you with a further report once we have received the Court's decision. The timing of this is not certain and will depend on the time the Judge requires to consider the complex matters that will be put before him in May this year.

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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