

Brisbane bank buys foundering Octaviar fund

Lisa Allen

Debt-ridden financial services and tourism group Octaviar has sold the management rights to its distressed Premium Income Fund to a Brisbane merchant banker in a deal valuing the business at up to \$20 million.

Jenny Hutson, founder of Wellington Capital and a business associate of new Octaviar boss Chris Scott, has signed a binding agreement to acquire the rights to the \$770 million fund, which has been frozen since February after a run of redemption requests.

Interest payments were suspended in March after property developers who had borrowed money from the fund began to default.

Wellington Capital, which has more than \$660 million of wholesale and retail funds under management, was part-owned by Mr Scott but he sold his interest in January 2007.

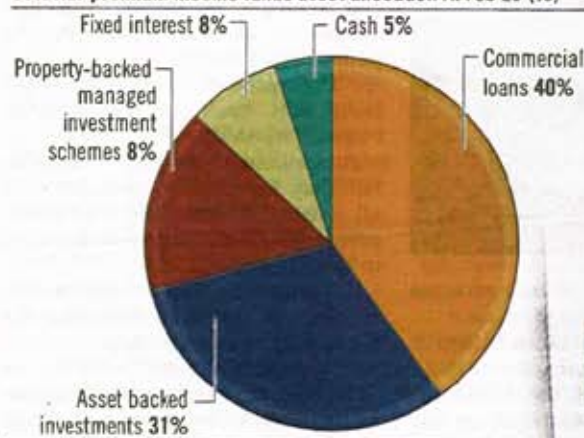
It is understood that the corporate regulator, the Australian Securities and Investments Commission, has vetted the transaction.

Ms Hutson, who was named 2007 Queensland Businesswoman of the Year, was appointed to the board of Octaviar Investment Management last week and was previously chairwoman of the company founded by Mr Scott and sold to then MFS, \$8.

Ms Hutson said yesterday she would fund the acquisition in cash, but was unable to divulge how much the fund's 11,000 investors could

Having a lend

Octaviar premium income funds asset allocation At Feb 29 (%)



Non-complying or 'complying under arrangement' loan assets at Dec 31: 15% (according to Loinsec)

Significant loans (\$m)

| | |
|----------------------------------|-----|
| Octaviar Maximum Yield Fund No.1 | 85 |
| Living and Leisure Australia | 67 |
| Causeway Asset Management | 50 |
| MFS Pacific Finance | 23 |
| GEO Property Trust | 19 |
| Sheraton Mirage Port Douglas | <10 |



SOURCE: AFR, LOINSEC

expect in returns. It could take months before she had a full picture of its financial position, she said.

"In six to 12 weeks we will have a clear picture which we will communicate to investors," Ms Hutson said.

"Until we do that there is no revenue.

"Investors have found themselves in a very difficult position and that is what we need to dig them out of."

Ms Hutson rejected claims that acquiring the management rights was a related-party transaction. She said the deal had full approval from all board members, led by chairman Andrew Peacock, who resigned yesterday to be replaced by deputy chairman Paul Manka.

"A whole lot of people lodged expressions of interest for the management rights," she said.

"No one got anywhere near doing due diligence. The Premium Income Fund needs to be separately represented by a responsible entity with the credentials to properly push forward their legal entitlements against Octaviar and to assess them.

"City Pacific made the offer, there was a period when expressions of interest were sought. But the board's decision was the deal in the best interests of Octaviar – the Wellington deal.

"The majority of the board at the time this decision was made had the benefit of considering each of the alternatives that were put forward

for this part of the funds management of Octaviar."

Ms Hutson said she would try to ensure \$50 million owed to the fund by parent company Octaviar was paid.

"The \$50 million needs to be addressed with all the force of law," she said.

"I want the maximum return possible to Premium Income Fund investors. At this point in time I have no view about what that is. I have a team of 20 professionals who have the experience to make that happen."

Ms Hutson said the fund had also lent Living & Leisure \$62 million which had to be recovered and had also lent \$50 million to a former MFS business boutique fund manager,

Causeway. Causeway is for sale.

Premium Income Fund has loans against a hotel under construction in Wollongong, south of Sydney, and the Sheraton Mirage Port Douglas. It also has several property-backed securities to various property developers that have not been publicly disclosed.

"At the time we account to investors a detailed overview of all of the assets will be provided," Ms Hutson said.

Premium Income Fund's loan portfolio has had several default including a loan associated with the Sheraton Mirage. Sources said the loan was less than \$10 million.

Negotiations to sell Port Douglas to an associate of Queensland's Ray family collapsed this week but sources said several other parties were interested in the hotel.

It is understood Mirvac is interested in the Wollongong hotel.

Premium Income Fund reported to the exchange yesterday that it had breached a financial covenant in relation to a \$168 million banking facility but the secured creditor had provided another extension to July 31 for repayment.

Ms Hutson said: "The current team, together with my team, is focused entirely on ensuring this July 31 deadline is met.

"This without question is the best way forward for unit holders. It's going to be hard work."

Ms Hutson also said the fund's relationship with Octaviar needed to be severed.