

**SUPREME COURT OF QUEENSLAND**

**REGISTRY: Brisbane  
NUMBER: 3383 of 2013**

**Applicants: RAYMOND EDWARD BRUCE AND VICKI PATRICIA BRUCE**

**AND**

**First Respondent: LM INVESTMENT MANAGEMENT LIMITED  
(IN LIQUIDATION) ACN 077 208 461 IN ITS  
CAPACITY AS RESPONSIBLE ENTITY OF THE LM  
FIRST MORTGAGE INCOME FUND**

**AND**

**Second Respondent: THE MEMBERS OF THE LM FIRST MORTGAGE  
INCOME FUND ARSN 089 343 288**

**AND**

**Third Respondent: ROGER SHOTTON**

**AND**

**Intervener: AUSTRALIAN SECURITIES & INVESTMENTS  
COMMISSION**

**AFFIDAVIT OF DAVID WHYTE**

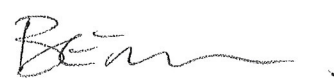
**I, DAVID WHYTE of Level 10, 12 Creek Street, Brisbane in the State of Queensland,  
Registered Liquidator, state on oath:-**

- I am a Registered Liquidator and a Partner of the firm BDO. I am an affiliate member of the Chartered Accountants Australia and New Zealand and a professional member of the Australian Restructuring, Insolvency and Turnaround Association ("ARITA").**

---

Page 1

Signed: 

Witnessed by: 

---

**AFFIDAVIT:  
Form 46, R.431**

**TUCKER & COWEN  
Solicitors  
Level 15, 15 Adelaide Street  
Brisbane, Qld, 4000.  
Tel: (07) 300 300 00  
Fax: (07) 300 300 33**

Filed on behalf of the Applicant



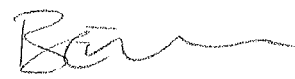
2. Now produced and shown to me and marked "DW-123" is an indexed paginated bundle of the documents referred to in this Affidavit ("the Bundle").
3. I swear this Affidavit in support of my application for approval of remuneration filed on 11 May 2020 ("the Application").
4. Unless stated otherwise, terms defined in my Affidavits filed on 11 May 2020 ("May 2020 Affidavit") and on 12 June 2020 ("June 2020 Affidavit"), have the same meaning in this Affidavit.

**Remuneration for administrative or other non-litigious work in winding up**

5. The letter from Russells to Tucker & Cowen dated 22 June 2020 (which is exhibited to the Affidavit of Ms Millie Russell sworn 24 June 2020) refers on page 2, to approximately \$580,000 remuneration sought by this Application for work not undertaken for the litigation matters.
6. A break up of the remuneration sought by this Application into the categories recommended by ARITA, relevantly Assets, Trade On, Creditors, Dividend, and Administration is set out at paragraph 52 of my May 2020 Affidavit.
7. Most of the remuneration for work done that is referable to non-litigious aspects of the winding up is recorded in the Creditors category, with some also recorded in the Dividend, Administration or Trade on categories.
8. A summary of the amount of remuneration sought in the Creditors category by this Application and the amount approved in the Creditors category on my four previous applications for approval of remuneration, is as follows:

Six month period ending	Amount (excluding GST) in Creditors Category
30 April 2020	\$452,868.50
31 October 2019	\$193,601.50
30 April 2019	\$221,468.50
31 October 2018	\$206,237


Signed: 

Witnessed by: 

30 April 2018	\$249,480
---------------	-----------

9. All or most of the time recorded in the Dividend category relates to the interim distribution. There was no remuneration in that category for the six month periods ending 30 April 2018, 31 October 2018, or 30 April 2019, \$38,491.50 remuneration approved in that category for the six month period ending 31 October 2019, and \$16,337.50 in that category is sought by the present Application.
10. I have conducted a further review of the narrations for this Relevant Period in the Creditors category.
11. The reason the amount sought by this Application in the Creditors category is significantly higher than the amount sought in my last four applications is that in this Relevant Period significant work was required to reprocess interim distributions payments made in October 2019, which returned or were not successful.
12. A total of 5,264 payments were required to be made to effect the interim distribution; of these, 1162 payments were returned totalling \$3,691,241.70 because bank account details provided by members were no longer valid, or the bank accounts did not accept AUD. A total of 485 payments totalling \$2,355,725.79 have been reprocessed to date.
13. The work involved to reprocess these payments included:
  - (a) Writing to members to obtain updated bank account details and responding to phone, mail or email queries from members who had not received payment;
  - (b) Checking change of details forms submitted by members or their advisors, some of which required a transfer of units;
  - (c) Verifying signatures and details;

Signed: 

Witnessed by: 

- (d) Updating membership records of the FMIF to reflect changes to bank account details; and
  - (e) Preparing, checking and issuing instructions to PTAL to re-make the payments.
14. A number of bank accounts held by investors who invested in a foreign currency could not accept AUD amounts and the payments were returned. Differing amounts were returned due to bank charges, which caused difficulties in the reconciliation of the amounts paid and increased the time spent on this work.

**Report to Members**

15. I refer to paragraph 57 of my June 2020 Affidavit.
16. On 30 June 2020, I issued my 30<sup>th</sup> report to members of the FMIF. In section 5.1 of this report is a high level overview of the best and worst case scenarios in relation to the litigation matters, including the Auditor's Claim.
17. At pages 1 to 11 of the Bundle is a copy of this report.


**Hearing of Liquidator's First Remuneration Application**

18. The first application by the Liquidators of LMIM seeking payment of remuneration from the FMIF was heard on 22, 26 February and 14 March 2016.
19. I opposed certain parts of that application and submitted that a referee should be appointed to determine any particular dispute as to reasonableness of the remuneration sought by the Liquidators.
20. At the hearing on 14 March 2016, the following exchange took place between Justice Jackson, and Mr McQuade QC, Counsel for the Liquidators:

---

Page 4

Signed: 

Witnessed by: 

*“MR McQUADE: They are, your Honour, and, for example, if your Honour was to determine, for example, post whatever date your Honour determines that the handover finished, that you can't do that task or you're not satisfied on the present material, that would mean that a lot of the work – the remuneration claim would have to go off to an independent person to look at the management of.*

*HIS HONOUR: Now, as between that, your original submissions were either a referee – a special referee or a registrar. There is someone who is – who still fulfils the function of a registrar who determines remuneration, but in a sense, it's a bit back to front for the judge to send it to the registrar in the way in which things are usually done these days. It tends to be the registrar does it and if that's – if there's a problem about that, it goes back to a judge.*

*As to the special referee alternative, there are some I think restrictions or limits these days under the rules because they're fairly well limited to determinations of questions of fact. So it seems to me that it would be necessary if that were to be the case, to articulate what – or identify a factual issue or subject matter of range because the wider statutory powers that used to exist to give questions of law and fact to referees, which were in the '95 Supreme Court Act and before then, back to the Judicature Act, weren't re-enacted with the 2011 Civil Proceedings Act. So there's a potential issue about that.*

*MR McQUADE: I understand that, your Honour.*

*HIS HONOUR: Within the schedule 1A, I think it is, to the corporation rules, the registrar has got power to deal with remuneration issues.*

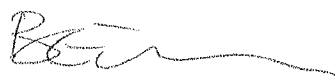
*MR McQUADE: Yes.”*

21. At pages 12 to 14 of the Bundle is a copy of the cover page and pages 83 to 84 of the transcript of the hearing on 14 March 2016.
22. On 17 October 2017, Justice Jackson delivered reasons for judgment, with respect to that application: *Park & Muller (Liquidators of LM Investment Management Ltd) v Whyte No 2* [2017] QSC 229. At pages 15 to 74 of the Bundle is a copy of His Honour's reasons for judgment.
23. At [165] to [169], His Honour gave reasons for rejecting the submission made by me that a referee should be appointed.

---

Page 5

Signed: 

Witnessed by: 

24. All the facts and circumstances above deposed to are within my own knowledge save such as are deposed to from information only and my means of knowledge and sources of information appear on the face of this my affidavit.

Sworn by **DAVID WHYTE** on the 30th day of June 2020 at Brisbane in the presence of:



**Deponent**



**Solicitor/A Justice of the Peace**

Brittany Marie Engeman  
Solicitor

**SUPREME COURT OF QUEENSLAND**

**REGISTRY:** Brisbane  
**NUMBER:** 3383 of 2013

**Applicants:**           **RAYMOND EDWARD BRUCE AND VICKI PATRICIA BRUCE**

**AND**

**First Respondent:**   **LM INVESTMENT MANAGEMENT LIMITED  
(IN LIQUIDATION) ACN 077 208 461 IN ITS  
CAPACITY AS RESPONSIBLE ENTITY OF THE LM  
FIRST MORTGAGE INCOME FUND**

**AND**

**Second Respondent:** **THE MEMBERS OF THE LM FIRST MORTGAGE  
INCOME FUND ARSN 089 343 288**

**AND**

**Third Respondent:**   **ROGER SHOTTON**

**AND**


**Intervener:**           **AUSTRALIAN SECURITIES & INVESTMENTS  
COMMISSION**

**CERTIFICATE OF EXHIBIT**

Exhibit "**DW-123**" to the Affidavit of **DAVID WHYTE** sworn this 30th day of June 2020



**Deponent**



**Solicitor/A Justice of the Peace**

Brittany Marie Engeman  
Solicitor

---

**CERTIFICATE OF EXHIBIT:**  
Form 47, R.435

Filed on behalf of the Applicant

**TUCKER & COWEN**  
Solicitors  
Level 15, 15 Adelaide Street  
Brisbane, Qld, 4000  
Tel: (07) 300 300 00  
Fax: (07) 300 300 33

**SUPREME COURT OF QUEENSLAND**

**REGISTRY:** Brisbane  
**NUMBER:** 3383 of 2013

**Applicants:** **RAYMOND EDWARD BRUCE AND VICKI PATRICIA BRUCE**

**AND**

**First Respondent:** **LM INVESTMENT MANAGEMENT LIMITED  
(IN LIQUIDATION) ACN 077 208 461 IN ITS  
CAPACITY AS RESPONSIBLE ENTITY OF THE LM  
FIRST MORTGAGE INCOME FUND**

**AND**

**Second Respondent:** **THE MEMBERS OF THE LM FIRST MORTGAGE  
INCOME FUND ARSN 089 343 288**

**AND**

**Third Respondent:** **ROGER SHOTTON**

**AND**

**Intervener:** **AUSTRALIAN SECURITIES & INVESTMENTS  
COMMISSION**

**INDEX OF EXHIBITS**

<b>No.</b>	<b>DW-123</b>	<b>Date</b>	<b>Page No.</b>
1.	30th report to members	30 June 2020	1 – 11
2.	Cover page and pages 83 to 84 of transcript of hearing on 26 March 2020	26 March 2016	12 – 14
3.	<i>Park &amp; Muller (Liquidators of LM Investment Management Ltd) v Whyte No 2</i> [2017] QSC 229	17 October 2017	15 - 74





"DW-123"

Tel: +61 7 3237 5999  
Fax: +61 7 3221 9227  
www.bdo.com.au

Level 10, 12 Creek St  
Brisbane QLD 4000  
GPO Box 457 Brisbane QLD 4001  
Australia

TO THE INVESTOR AS ADDRESSED

30 June 2020

**LM FIRST MORTGAGE INCOME FUND (RECEIVER APPOINTED)**  
**ARSN 089 343 288 ('the Fund' or 'FMIF')**

## 1. Introduction

I refer to my appointment as the Receiver of the Fund's assets and the person responsible for ensuring the winding up of the Fund in accordance with the terms of its constitution by Order of the Supreme Court of Queensland on 8 August 2013.

I now provide my 30<sup>th</sup> update to investors, which provides details of the progress made in the winding up of the Fund since my last report to investors dated 31 March 2020. This report should be read in conjunction with my previous reports, which are available on the website [www.lmfimif.com](http://www.lmfimif.com).

## 2. Progress and Status of the Winding Up

### 2.1 Legal Actions/Potential Recoveries

#### 2.1.1 Proceedings against the MPF, LMIM and the Directors of LMIM

I refer to my previous updates to investors in relation to a statement of claim I caused to be filed in the Supreme Court of Queensland, against a number of parties, including the MPF Trustee and a number of directors of LMIM, in respect of loss allegedly suffered by the FMIF as a result of an amount paid to the MPF in the Bellpac litigation matter. The claim was for approximately \$15.5M plus interest.

As previously advised, the Judge dismissed my claim against the directors of LMIM on 22 November 2019. Costs have been awarded in favour of the defendants.

On 20 December 2019 I filed an appeal of the decision. The progress of the appeal is presently awaiting the outcome of an application for judicial advice I have made to the Court seeking advice from the Court that I am justified in making and pursuing the appeal. That application was heard by the Court on 2 June 2020. The Judge has reserved his decision and I await the outcome as to whether the appeal will be continued with or not.

#### 2.1.2 Claim against the former auditors (EY Proceeding)

I refer to my previous updates to investors and provide a brief summary of the key events since my last report, as follows:



- I am still awaiting the outcome of my application to strike out the Privilege Claims which was heard on 14 February 2020 (the Privilege Application). When this decision is provided by the Court, further directions will be made for the progress of the claim;
- An Answer to the Counterclaim filed by the defendants was filed and served on 22 April 2020;
- The matter is otherwise presently being progressed including briefing essential expert witnesses and agreeing between the parties the process and manner in which electronic disclosure of evidence is to occur.

The proceedings are ongoing and an update will be provided in the next report.

### **2.1.3 Bellpac Proceedings - Wollongong Coal Ltd (WCL)**

I refer to my previous updates to investors and provide a brief summary as follows:

- The liquidator of Bellpac has received the settlement amount of \$2 million from WCL in relation to the claim for redemption of the \$2 million Bonds held in WCL. A partial distribution of \$1M was received from the Bellpac liquidator in October 2019;
- The defendants' appeal of the decision of the Court which acknowledged that Bellpac (under the control of a liquidator) is the true owner of the \$8 million convertible bonds was unsuccessful;
- In January 2016, the Bellpac Liquidator applied for the conversion of the \$8 million Bonds to shares. As WCL did not issue all of the shares as required under the terms of the Bonds, the Bellpac Liquidator brought proceedings against WCL seeking orders requiring WCL to perform its obligation to redeem the Bonds converted to shares outside of the required time;
- The Bellpac liquidator and WCL have entered into a binding heads of agreement (HOA) which relates to the settlement of the litigation commenced against WCL. The terms of the heads of agreement include that WCL will pay to Bellpac a settlement sum of \$6.3 million in return for certain releases and Bellpac returning or cancelling the WCL shares issued to Bellpac;
- The conditions precedent to the settlement with WCL include obtaining necessary approvals to undertake the settlement transactions. In this regard:
  - The Bellpac Liquidator has obtained creditor approval to enter into the settlement with WCL;
  - The Court declined to exercise its discretion on WCL's application for approval to acquire and or cancel Bellpac's holding of WCL shares. WCL is now preparing to seek shareholder approval.

The remaining condition precedent (Sunset Date) to the settlement with WCL has been extended several times and the Liquidator was successful in negotiating, as part of the agreement to extend the Sunset Date, that WCL will pay interest at 3% p.a. from 2 October 2017 until settlement. To date WCL has paid \$3M towards the settlement into their solicitors' trust account, which is to be released upon receiving shareholder approval of the settlement.

Delays have been encountered in calling the meeting of shareholders, including WCL entering into a scheme of arrangement which was terminated after failing to meet certain conditions, but which has since been reinstated. Certain conditions of the scheme of arrangement remain to be completed.



This is anticipated to be done by 15 July 2020 with shareholder approval to be obtained within 100 days thereafter. A revised binding heads of agreement was executed on 9 June 2020.

A further update will be provided in the next report.

#### **2.1.4 Claims against guarantors**

There is only one remaining matter which can be summarised, as follows:

- PTAL as custodian of the FMIF obtained judgment against a guarantor, for approximately \$3 million, plus interest and costs. The trustee in bankruptcy has identified potential recoveries for the benefit of creditors of the bankrupt estate, of which the Fund is a major creditor. The bankrupt, along with other parties, contributed land to a development. The land was subdivided, developed and sold, and the net proceeds of sale in the sum of approximately \$12 million is presently held in a solicitors trust account on an interim basis, protected by certain undertakings given by the solicitor holding the funds. The trustee claims an entitlement in respect of all or at least a substantial portion of the funds held in the solicitors trust account; however, other parties to the dispute allege that associated entities of the bankrupt are entitled to the funds. I instructed PTAL as custodian of the FMIF to enter into a Deed of Indemnity to fund a public examination and any agreed recovery proceedings in respect of this matter. A public examination was held in the Federal Court on 7, 12, 13, 18 and 19 November 2019. Subsequently, demands were served on several parties. A mediation with one of the parties to the dispute was held in May, with discussions taking place to hold a further mediation with other parties to the dispute.

An update will be provided in the next report.

#### **2.1.5 Liquidators of LMIM (FTI Consulting)**

##### **2.1.5.1 Remuneration claim and expenses claim**

I refer to my previous reports to investors.

The judgement regarding and orders made in relation to FTI's first remuneration claim and indemnity claim are available on the websites [www.lmfimf.com](http://www.lmfimf.com) and [www.lminvestmentadministration.com](http://www.lminvestmentadministration.com).

The judgement and orders made with respect to FTI's second remuneration claim are summarised in paragraph 2.1.5.2 of my report to investors dated 31 March 2020.

##### **2.1.5.2 Third FTI Remuneration Application**

I was provided with a further application by FTI for approval of remuneration on 5 May 2020. The application seeks a total of \$194,180.25 from the FMIF for the period 1 July 2018 to 29 February 2020, made up of Category 1 remuneration (remuneration that is specifically referable to the FMIF) of \$126,462, and Category 2 Remuneration (remuneration that relates to all of the funds of which LMIM is the Responsible Entity) of \$67,717.65.

The application has not yet been filed or listed for hearing although I have raised a number of queries with FTI in relation to the application and amount sought.

An update regarding this application, will be provided in my next report to investors.



#### **2.1.5.3 Indemnity claim against the Fund and proof of debt process**

The proof of debt process and claims notified to me, or potential claims by LMIM for indemnity from the FMIF, with respect to debts or claims of creditors of LMIM, are summarised in paragraph 2.1.5.3 of my report to investors dated 31 March 2020.

There have been no significant developments in relation to these indemnity claims since my last report to investors.

#### **2.1.5.4 Expenses**

The judgment and orders of the Court made with respect to two further applications by the Liquidator for payment of expenses from the FMIF, which were heard in January and February of 2020, are summarised in paragraph 2.1.5.4 of my report to investors dated 31 March 2020.

FTI informed me some-time ago that they intend to make a further claim against the Fund for indemnity for expenses incurred by LMIM and/or the Liquidator, however despite several requests to enquire on the status of the claim and request that it be filed with their remuneration application to save costs to investors, have not advised when the application and supporting material will be forthcoming.

#### **2.1.5.5 Further application by FTI for directions**

The judgment and orders of the Court with respect to a further application filed by Mr Park on 10 October 2018 seeking directions in relation to the dual appointments of Mr Park and I to wind up the FMIF are summarised in paragraph 2.1.5.5 of my report to investors dated 31 March 2020.

#### **2.1.5.6 Claim filed against LMIM**

The claims made in this proceeding and the key steps to date in the proceeding, are summarised in paragraph 2.1.5.6 of my report to investors dated 19 December 2019. The current status of this claim is that it remains stayed until further order. I will keep investors updated as to any developments in relation to this claim.

### **3 Personal Portfolio Bonds / Insurance Bonds**

*For the information of holders of "Personal Portfolio Bonds" or "Insurance Bonds" marketed by Friends Provident International Limited and Old Mutual International Isle of Man Limited (formerly Skandia International).*

I have been advised by Coburn Corporate Intelligence (CCI) that Signature Litigation LLP, a London-based law firm and with other lawyers, have filed class actions against Old Mutual International Isle of Man Limited (formerly Skandia International) (OMI) and Friends Provident International Limited (FPI) in the Isle of Man. The claims seek compensation for the failure of financial products marketed to investors by FPI and OMI as "portfolio bonds" or "insurance bonds" (with product names such as "Executive Investment Bond or Reserve Investment Bond").

If your investment in the LM First Mortgage Income Fund was held through one of these bonds, you can find out further information by visiting the CCI website - [www.coburnci.com](http://www.coburnci.com) and clicking on "OMI/FPI CLASS ACTION REGISTER HERE".

I am informed by CCI that the class actions, are not available to direct investors in the LM First Mortgage Income Fund who do not hold Portfolio Bonds/Insurance Bonds.



I make no representation as to the availability of a claim to any investor nor the likelihood of any recovery. Investors should make their own enquiries.

#### 4 Management Accounts

As advised in my previous report, the management accounts for the half-year ending 31 December 2019 are available on the website [www.lmfimf.com](http://www.lmfimf.com).

The management accounts for the year ending 30 June 2020 will be uploaded to the website [www.lmfimf.com](http://www.lmfimf.com) by 30 September 2020.

#### 5 Investor Information

##### 5.1 Estimated Returns to Investors

###### 5.1.1 Based on current cash at bank and excluding future recoveries and costs

I provide an estimated remaining return to Investors of 6.9 cents per unit as at 31 May 2020, and a total estimated return of 13.4 cents per unit taking into account the interim distribution paid of 6.5 cents per unit, calculated as follows:

Description	\$ Amount
Cash at bank	34,407,012
<b>Estimated Assets Position</b>	<b>34,407,012</b>
Other unsecured creditors	(1,455,211)
Returned First Interim Distribution to investors (6.5 cents)	(1,661,925)
Receiver's fees & outlays (BDO) 1 November 2019 to 30 April 2020	(941,200)
Receiver's fees & outlays (BDO) 1 May 2020 to 31 May 2020	(183,341)
<b>Total Liabilities</b>	<b>(4,241,677)</b>
<b>Estimated net amount available to investors as at 31 May 2020</b>	<b>30,165,335</b>
Benefit of Feeder Fund settlement of amounts withheld*	3,896,103*
<b>Total estimated amount available to investors</b>	<b>34,061,438</b>
Total investor units (AUD Equivalent as at date of appointment)	492,125,624
<b>Estimated return in the dollar</b>	<b>6.9 cents</b>



Description	\$ Amount
Add: Distributions to date	6.5 cents
<b>Total estimated return in the dollar</b>	<b>13.4 cents</b>

If further recoveries are made this will increase the amount due from the Feeder Funds settlement.

Please note that the estimate and prior estimates do not take into account future operating costs and future Receiver's fees or any legal recoveries against borrowers, valuers or other third parties.

The Feeder Fund settlement will reduce the amount of cash to be paid to the Feeder Funds. Based on the amounts in the above table, I attach at Annexure 1 calculations showing the net amounts payable to the Feeder Funds, as follows:

Feeder Fund	Estimated Return
LM Currency Protected Australian Income Fund ("CPAIF")	3.7 cents
LM Institutional Currency Protected Australian Income Fund ("ICPAIF")	3.7 cents
LM Wholesale First Mortgage Income Fund ("WFMIF")	5.4 cents

These are the amounts that would be paid to the responsible entities of each of the Feeder Funds, the costs and expenses of the Feeder Funds would need to be distributed from the net cash that is paid to each of the Feeder Funds before distributions are made to Feeder Fund investors.

#### 5.1.2 High and low returns based on estimates of future recoveries and costs

Description	High (\$)	Low (\$)
Estimated net amount available to investors as at 31 May 2020	30,165,335	30,165,335
Litigation Recoveries/(Losses)	215,786,000	(16,850,000)
Other Future Costs	(1,600,000)	(2,400,000)
<b>Estimated net amount available to investors after Litigation Recoveries/(Losses)</b>	<b>244,351,335</b>	<b>10,915,335</b>
Benefit of Feeder Fund settlement of amounts withheld	24,445,221	1,409,806
<b>Total estimated amount available to investors after Litigation Recoveries</b>	<b>268,796,556</b>	<b>12,325,141</b>
Total investor units (AUD Equivalent as at date of appointment)	492,125,624	492,125,624



Description	High (\$)	Low (\$)
Estimated return in the dollar after Litigation Recoveries/(Losses)	54.6 cents	2.5 cents
Add: Distributions to date	6.5 cents	6.5 cents
Total estimated return in the dollar after Litigation Recoveries	61.1 cents	9 cents

The estimated amounts for litigation recoveries/(losses) include the proceedings against the auditors, the proceedings against the directors, the Bellpac liquidator claim and the Lamb trustee in bankruptcy claim. The high amount is if all matters are concluded successfully (included the auditors claim at the highest amount claimed of \$201M) and the low amount if all matters are lost (including the appeal of the proceedings against the directors) and adverse cost orders are paid (if applicable).

The other future costs assume an estimated time to complete the winding up of up to three years.

## 5.2 Further Distributions to Investors

The Court authorised and empowered me on 2 October 2019 to make an interim capital distribution of 6.5 cents per unit to investors of the LM First Mortgage Income Fund. I confirm the interim distribution was paid to investors in October 2019.

Once the above matters in section 2 have been finalised, I intend to pay, subject to court approval, the final distribution to investors.

I will provide an update on the progress of the winding up of the Fund in my next report to investors.

## 5.3 Ongoing Reporting to Investors

Reports will be distributed to investors in accordance with the preferred method of correspondence recorded for each investor in the Fund's database. In order to assist in reducing distribution costs, it would be appreciated if investors could nominate an email address as their preferred method to receive correspondence. Investors may update their details as outlined in Section 4.4 below. For those investors that do not have an email address, correspondence will continue to be sent to you via post.

My next report to investors will be issued by 30 September 2020.

## 5.4 Investors Queries

For any changes to investors details, please review the Useful Forms/Procedures tab on the website [www.lmfimif.com](http://www.lmfimif.com) which includes information regarding the following procedures:

- Change of Contact Address/Bank Account Details
- Change of Contact Address/Bank Accounts Details of a Deceased Estate
- Change of Trustee of Self-Managed Super Fund
- Transfer of Unit Holding from a Super Fund/ Trustee Company to Personal Name(s)
- Transfer of Unit Holding from a Deceased Estate to a Sole Survivor
- Transfer from a Deceased Estate to a Beneficiary of an Estate



It is a requirement that advisors or other third parties acting on behalf of Unit Holders are doing so pursuant to a relevant Authority/Power of Attorney. Please ensure that a relevant Authority/Power of Attorney accompanies the abovementioned documents as necessary (if an Authority/Power of Attorney has not previously been provided).

It is preferable that all questions about the winding up, or communications are sent via email to [enquiries@lmfmif.com](mailto:enquiries@lmfmif.com) with original documents to be mailed as required to:

BDO  
GPO Box 457  
Brisbane QLD 4001  
Phone: +61 7 3237 5999  
Fax: +61 7 3221 9227

## 6 Receiver's Remuneration and Expenses

There have been thirteen applications to Court to date to approve my remuneration from the date of my appointment on 8 August 2013 until 30 April 2020.

The thirteenth application for the approval of my remuneration for the period 1 November 2019 to 30 April 2020, having been adjourned on 27 May 2020, will be heard by the Court on 2 July 2020. My remuneration claim for this period is in the amount of \$989,373.55 (inclusive of GST) plus outlays of \$1,363.49 (inclusive of GST) in relation to my role as the person responsible for ensuring the FMIF is wound up in accordance with its constitution.

A copy of all documentation in relation to my applications can be found on the website [www.lmfmif.com](http://www.lmfmif.com).

In addition to the remuneration previously approved by the Court and the thirteenth application set out above, I calculate that, on a time basis, I have incurred further remuneration of \$183,335.50 (exclusive of GST) plus outlays of \$5.40 (exclusive of GST) from 1 May 2020 to 31 May 2020 as detailed in the attached summary.

## 7 Queries

Should unit holders wish to advise of any changes in details or require further information, please contact BDO as follows:

BDO  
GPO Box 457  
Brisbane QLD 4001  
Phone: +61 7 3237 5999  
Fax: +61 7 3221 9227  
Email: [enquiries@lmfmif.com](mailto:enquiries@lmfmif.com)

Yours sincerely

David Whyte

Receiver



ANNEXURE 1  
ESTIMATED RETURN TO FEEDER FUNDS

Feeder Fund	Number of Units	Estimated Return to Feeder Funds as at 31 May 2020			
		Distribution (\$)	Amounts withheld (\$)	Net Amount Paid (\$)	Net Cents per Unit
CPAIF	120,702,630	7,398,589	2,959,436	4,439,153	0.037
ICPAIF	9,350,802	573,167	229,267	343,900	0.037
WFMIF	99,488,929	6,098,274	707,400	5,390,874	0.054
<b>Total</b>	<b>229,542,361</b>	<b>14,070,030</b>	<b>3,896,103</b>	<b>10,173,927</b>	



REMUNERATION REPORT - Summary of professional fees by category of work for the period 1 May 2020 to 31 May 2020  
 LM First Mortgage Income Fund (Receiver Appointed)

Employee	Position	Rate	Totals											
			hrs	\$	Assets hrs	\$	Creditors hrs	\$	Task Area Trade On hrs	\$	Dividends hrs	\$	Administration hrs	\$
David Whyte	Partner	615	48.1	29,581.50	25.1	15,436.50	0.4	246.00	6.3	3,874.50	0.2	105.00	16.3	10,024.50
Clark Jarrod	Partner	615	17.2	10,578.00	17.2	10,578.00								
Craig Jenkins	Partner	540	0.9	486.00	0.9	486.00								
Charles Haines	Associate Director	525	1.0	525.00			0.2	105.00					0.6	315.00
Arthur Taylor	Senior Manager	500	40.2	20,100.00	40.2	20,100.00								
Julie Pagou	Associate Director	465	51.7	24,040.50	51.7	24,040.50								
Jayden Coulston	Manager	460	26.3	12,098.00			24.3	11,178.00			2.0	920.00		
Ryan Whyte	Accountant	275	120.4	33,110.00	83.8	23,045.00	15.7	4,317.50	20.2	5,555.00			0.7	192.50
Jordan Devery	Graduate Accountant	225	117.5	26,437.50	72.6	16,335.00	44.4	9,990.00	0.5	112.50				
Liam Landrigan	Graduate Accountant	225	100.0	22,500.00			99.9	22,477.50					0.1	22.50
Sarah Cunningham	Accounting Assistant	225	14.3	3,217.50									14.3	3,217.50
Maira Hattingh	Practice Assistant	105	6.3	661.50									6.3	661.50
<b>TOTALS</b>			<b>548.9</b>	<b>183,385.50</b>	<b>291.5</b>	<b>110,021.00</b>	<b>184.9</b>	<b>48,314.00</b>	<b>37.0</b>	<b>9,542.00</b>	<b>2.2</b>	<b>1,025.00</b>	<b>38.3</b>	<b>14,433.50</b>
			<b>GST</b>	<b>18,333.55</b>										
			<b>TOTAL INC GST</b>	<b>201,699.05</b>										
			<b>AVERAGE HOURLY RATE</b>	<b>337</b>	<b>377</b>	<b>261</b>	<b>353</b>	<b>466</b>	<b>377</b>					

Note: All amounts exclude GST unless otherwise noted



Disbursements for the period 1 May 2020 to 31 May 2020

LM First Mortgage Income Fund (Receiver Appointed)

Expense Type	Amount (\$ ex GST)
Postage	5.40
TOTAL	5.40
GST	0.54
TOTAL INC GST	5.94

**AUSCRIPT AUSTRALASIA PTY LIMITED**

ACN 110 028 825

**T:** 1800 AUSCRIPT (1800 287 274)

**W:** [www.auscript.com.au](http://www.auscript.com.au)

**E:** [clientservices@auscript.com.au](mailto:clientservices@auscript.com.au)



**Ordered by:** Simone Mulvey

**For:** Tucker & Cowen Solicitors

**Email:** [mziebell@tuckercowen.com.au](mailto:mziebell@tuckercowen.com.au)

**TRANSCRIPT OF PROCEEDINGS**

---

Copyright in this transcript is vested in the State of Queensland (Department of Justice & Attorney-General). Copies thereof must not be made or sold without the written authority of the Executive Manager, Support Services, Queensland Courts.

**SUPREME COURT OF QUEENSLAND**

**CIVIL JURISDICTION**

**JACKSON J**

**No 3508 of 2015**

**RE: LM INVESTMENT MANAGEMENT LIMITED and OTHERS**

**BRISBANE**

**10.00 AM, MONDAY, 14 MARCH 2016**

**DAY 1**

Any Rulings that may be included in this transcript, may be extracted and subject to revision by the Presiding Judge.

**WARNING:** The publication of information or details likely to lead to the identification of persons in some proceedings is a criminal offence. This is so particularly in relation to the identification of children who are involved in criminal proceedings or proceedings for their protection under the *Child Protection Act 1999*, and complainants in criminal sexual offences, but is not limited to those categories. You may wish to seek legal advice before giving others access to the details of any person named in these proceedings.

determined by an independent person, being, for example, an expert, if the parties can agree, or the registrar. We'd - - -

5 HIS HONOUR: Well, that was the question I wanted to ask you: whether you say there are three potential alternatives. One is – the theory is that that goes on for a more minute determination. The second is that notwithstanding the lack of sufficient clarity, I might do a rough and ready exercise and say, “Well, I’m not satisfied about all of it, but maybe a third of it looks okay,” to give you a theoretical kind of example for that bit, and I’ll – rather than send the parties off to a detailed dispute about a relatively smaller sum of money, I should do that, and then the next alternative is, well, that part of it falls down, but up until there, it’s all right. On a final basis, they seem to me to be the three logical alternatives.

15 MR McQUADE: They are, your Honour, and, for example, if your Honour was to determine, for example, post whatever date your Honour determines that the handover finished, that you can’t do that task or you’re not satisfied on the present material, that would mean that a lot of the work – the remuneration claim would have to go off to an independent person to look at the management of.

20 HIS HONOUR: Now, as between that, your original submissions were either a referee – a special referee or a registrar. There is someone who is – who still fulfils the function of a registrar who determines remuneration, but in a sense, it’s a bit back to front for the judge to send it to the registrar in the way in which things are usually done these days. It tends to be the registrar does it and if that’s – if there’s a problem about that, it goes back to a judge.

25 As to the special referee alternative, there are some I think restrictions or limits these days under the rules because they’re fairly well limited to determinations of questions of fact. So it seems to me that it would be necessary if that were to be the case, to articulate what – or identify a factual issue or subject matter of range because the wider statutory powers that used to exist to give questions of law and fact to referees, which were in the ’95 Supreme Court Act and before then, back to the Judicature Act, weren’t re-enacted with the 2011 Civil Proceedings Act. So there’s a potential issue about that.

35 MR McQUADE: I understand that, your Honour.

HIS HONOUR: Within the schedule 1A, I think it is, to the corporation rules, the registrar has got power to deal with remuneration issues.

40 MR McQUADE: Yes.

HIS HONOUR: So that it could potentially be done that way, as it seems to me. So that was the question I wanted to raise in the first place - - -

45 MR McQUADE: Could - - -

HIS HONOUR: - - - if I get into that kind of conundrum, what happens next?

MR McQUADE: Because when your Honour does get down to that, the parties may be able to identify to you, your Honour, a person or persons who they may choose to  
5 - they both agree upon to be the special referee, so that's - - -

HIS HONOUR: Yes. All right. So, I mean, a potential subject matter, for example, would be the controllership problem, if I were to conclude that - that controllership was something that, so far as it was a contractual capacity that the company and  
10 therefore the liquidators had to carry out because of the contracts with PTAL but it was in, on the face of it, competition with what was to be done by Mr White as receiver, there's a potential issue or problem there about two people doing the same function.

MR McQUADE: And your Honour did make an order, but I can't say, your Honour, on the 15<sup>th</sup> of September 2004 with relation to the controllerships about appointing Mr White, as justifying and accepting those appointments, but again all of that's evidence that's not before your Honour as to - - -  
15

HIS HONOUR: No, that's right. That's one aspect that seemed to me to be, as it were, an area where there isn't evidence. There's one other as well.  
20

MR McQUADE: And I can't say - I'm not on top of it, your Honour, so I don't want to make a submission about which way it falls without it being before the court, giving my learned friends an opportunity to look at it.  
25

HIS HONOUR: There was one other area of the facts where I thought there might be a similar problem.

MR McQUADE: Can I just pause there, your Honour. If, for example - can I just - to try and assist you with the question you asked me, can I take you to Mr Park's affidavit, please - - -  
30

HIS HONOUR: Yes.  
35

MR McQUADE: - - - the first one. It's volume 1, if you - sorry, it's my volume 1, but the schedule starting at page 594.

HIS HONOUR: Five-nine-four?  
40

MR McQUADE: Yes, which is the category I schedules.

HIS HONOUR: Yes.

MR McQUADE: So, your Honour, if your Honour makes a determination that you're not able to make a decision about the controllerships, you can see, your Honour, there that they're identified in the D category and the amounts are set  
45

# SUPREME COURT OF QUEENSLAND

CITATION: *Park & Muller (liquidators of LM Investment Management Ltd) v Whyte No 2* [2017] QSC 229

PARTIES: **JOHN RICHARD PARK AND GINETTE DAWN MULLER AS LIQUIDATORS OF LM INVESTMENT MANAGEMENT LTD (IN LIQUIDATION) (RECEIVERS AND MANAGERS APPOINTED) ACN 077 208 461 THE RESPONSIBLE ENTITY OF THE LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288**  
(first applicants)  
AND  
**LM INVESTMENT MANAGEMENT LIMITED (IN LIQUIDATION) (RECEIVERS AND MANAGERS APPOINTED) ACN 077 208 461 THE RESPONSIBLE ENTITY OF THE LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288**  
(second applicant)  
AND  
**DAVID WHYTE AS THE PERSON APPOINTED TO SUPERVISE THE WINDING UP OF THE LM FIRST MORTGAGE INCOME FUND ARSN 089 343 288**  
(respondent)

FILE NO/S: BS3508/15

DIVISION: Trial Division

PROCEEDING: Application

DELIVERED ON: 17 October 2017

DELIVERED AT: Brisbane

HEARING DATE: 22 & 26 February and 14 March 2016 and further submissions received on 27 June 2016.

JUDGE: Jackson J

ORDER: **The order of the court is that:**

- 1. The first applicants and the respondent may submit a draft order in an agreed amount in accordance with these reasons as to the first applicants' entitlement to be paid from the LM First Mortgage Income Fund ("FMIF") for remuneration as administrators of the second applicant.**
- 2. If the parties are unable to reach agreement under paragraph 1 two business days before 22**

November 2017, the matter is relisted on that date for further hearing or directions.

3. The first applicants are entitled to be paid the sum of \$120,057.14 (plus GST) from the scheme property of the LM Australian Income Fund ("AIF") for remuneration and expenses as administrators of the second applicant.
4. The first applicants are entitled to be paid the sum of \$4,569.76 (plus GST) from the scheme property of the LM Australian Structured Products Fund ("ASPF") for remuneration and expenses as administrators of the second applicant.
5. The first applicants are entitled to be paid the sum of \$4,022.30 (plus GST) from the scheme property of the LM Cash Performance Fund ("CPF") for remuneration and expenses as administrators of the second applicant.
6. The first applicants are entitled to be paid the sum of \$9,152.70 (plus GST) from the scheme property of the LM Currency Protected Australian Income Fund ("CP-AIF") for remuneration and expenses as administrators of the second applicant.
7. The first applicants are entitled to be paid the sum of \$3,101.78 (plus GST) from the scheme property of the LM Institutional Currency Protected Australian Income Fund ("ICP-AIF") for remuneration and expenses as administrators of the second applicant.
8. The first applicants are entitled to be paid the sum of \$550,526.22 from the respective scheme property of the funds referred to in paragraphs 1 and 3 to 5.
9. The first applicants' entitlement under paragraph 8 should be divided equally among the funds referred to in paragraphs 1 and 3 to 5 and the Managed Performance Fund until 12 April 2013 and thereafter equally among the funds referred to in paragraphs 1 and 3 to 5.
10. The first applicants submit a draft order two business days before 22 November 2017 in an amount in accordance with these reasons fixing the first applicants' entitlement for remuneration as liquidators of the second applicant.
11. The first applicants and the respondent may submit a draft order in an agreed amount in accordance with these reasons as to the first



applicants' entitlement to be paid from the LM First Mortgage Income Fund ("FMIF") for remuneration as liquidators of the second applicant.

12. If the first applicants and the respondent are unable to reach agreement as to paragraph 11 two business days before 22 November 2017, the matter is relisted on that date for further hearing or directions.
13. The first applicants are entitled to be paid the sum of \$499,622.96 (plus GST) from the scheme property of the LM Australian Income Fund ("AIF") for remuneration and expenses as liquidators of the second applicant.
14. The first applicants are entitled to be paid the sum of \$4,569.76 (plus GST) from the scheme property of the LM Australian Structured Products Fund ("ASPF") for remuneration and expenses as administrators of the second applicant.
15. The first applicants are entitled to be paid the sum of \$119,583.61 (plus GST) from the scheme property of the LM Cash Performance Fund ("CPF") for remuneration and expenses as liquidators of the second applicant.
16. The first applicants are entitled to be paid the sum of \$82,583.83 (plus GST) from the scheme property of the LM Currency Protected Australian Income Fund ("CP-AIF") for remuneration and expenses as liquidators of the second applicant.
17. The first applicants are entitled to be paid the sum of \$29,621.37 (plus GST) from the scheme property of the LM Institutional Currency Protected Australian Income Fund ("ICP-AIF") for remuneration and expenses as liquidators of the second applicant.
18. The first applicants are entitled to be paid the sum of \$651,438 from the respective scheme property of the funds referred to in paragraphs 11 and 13 to 15 for remuneration as the liquidators of the second applicant.
19. The first applicants' entitlement under paragraph 18 should be divided equally among the funds referred to in paragraphs 11 and 13 to 15.
20. The first applicants and the respondent may submit a draft order in an agreed amount in accordance with these reasons as to the first

applicants' entitlement to be paid from the LM First Mortgage Income Fund ("FMIF") for expenses as administrators of the second applicant.

21. If the parties are unable to reach agreement under paragraph 20 two business days before 22 November 2017, the matter is relisted on that date for further hearing or directions.
22. The first applicants and the respondent may submit a draft order in an agreed amount in accordance with these reasons as to the first applicants' entitlement to be paid from the LM First Mortgage Income Fund ("FMIF") for expenses as liquidators of the second applicant.
23. If the parties are unable to reach agreement under paragraph 22 two business days before 22 November 2017, the matter is relisted on that date for further hearing or directions.
24. The parties should exchange submissions on costs two business days before 22 November 2017.
25. The question of costs and any outstanding matters under these orders be heard on 22 November 2017 at 10 am.

CATCHWORDS: CORPORATIONS – MANAGED INVESTMENTS – WINDING UP – where the second applicant was the responsible entity of a number of registered investment schemes – where the first applicants were appointed administrators and later liquidators of the second applicant – where the respondent was appointed by order of the court to take responsibility for ensuring that the largest registered investment scheme was wound up in accordance with its constitution and the order – where the first applicants made claims for remuneration and expenses for work done in the administration and liquidation of the second applicant – whether the first applicants' claims for remuneration and expenses should be paid from the trust property of the investment schemes of which the second applicant was the registered entity

*Corporations Act 2001* (Cth), s 443D, s 449E, s 555, s 556, s 601FC, s 601FH, s 601GA

*Trusts Act 1973* (Qld), s 72, s 96, s 101

*Uniform Civil Procedure Rules 1999* (Qld), r 501, sch 1A r 16.1

*13 Coromandel Place Pty Ltd v CL Custodians Pty Ltd (in liq)* (1999) 30 ACSR 377, discussed

*Alphena Pty Ltd (in liq) v PS Securities Pty Ltd* (2013) 94 ACSR 160, cited

*Australian Securities and Investment Commission (ASIC) v Groundhog Developments Pty Ltd & Ors* [2011] QSC 263, cited  
*Australian Securities and Investment Commission (ASIC) v Letten (No 17)* (2011) 286 ALR 346, discussed  
*Gillan v HEC Enterprises Ltd* [2017] 1 BCLC 340, discussed  
*In re Universal Distributing Co Ltd (in liq)* (1933) 48 CLR 171, considered  
*LM Investment Management Limited (in liq) v Bruce & ors* [2014] QCA 136, discussed  
*Macks & Anor v Maka & Anor* [2015] SASC 200, discussed  
*Octavo Investments Pty Ltd v Knight* (1979) 144 CLR 360  
*Owen v Madden (No 5)* [2013] FCA 1443, cited  
*Parbery v ACT Superannuation Management Pty Ltd* (2010) 79 ACSR 425, discussed  
*Park & Muller (liquidators of LM Investment Management Ltd (in liq)) v Whyte* [2015] QSC 287, cited  
*Primespace Property Investment Limited (in liq)* [2016] NSWSC 1821, considered  
*Re AAA Financial Intelligence Ltd (in liq)* [2014] NSWSC 1004, cited  
*Re Berkeley Applegate (Investment Consultants) Ltd (in liq); Harris v Conway* [1989] Ch 32, considered  
*Re Bruce & Anor v LM Investment Management Limited & Ors (No 2)* [2013] QSC 347, discussed  
*Re Bruce & anor v LM Investment Management Limited & ors* [2013] QSC 192, discussed  
*Re Enhill Pty Ltd* (1982) 7 ACLR 8, cited  
*Re Garra Water Investments Pty Ltd (in liq) v Ourback Yard Nursery Pty Ltd* [2012] SASC 44, discussed  
*Re GB Nathan & Co Pty Ltd (in liq)* (1991) 24 NSWLR 674, discussed  
*Re Independent Contractor Services (Aust) Pty Limited (in liq) (No 2)* (2016) 305 FLR 222, considered  
*Re National Buildplan Group Pty Ltd (subject to deed of company arrangement)* [2014] NSWSC 146, cited  
*Re Obie Pty Ltd* [1984] 1 Qd R 371, cited  
*Re Solfire Pty Ltd (in liq) (No 2)* [1999] 2 Qd R 182, cited  
*Re Suco Gold Pty Ltd (in liq)* (1983) 33 SASR 99, considered  
*Re Sutherland* (2004) 50 ACSR 297, cited  
*Re Sutherland; French Caledonia Travel Service Pty Ltd* (2003) 59 NSWLR 361, cited  
*Re Timeshare Resort Club Ltd (in liq)* (2010) 187 FCR 13, cited  
*Re Traditional Values Management Ltd (in liq) (No 2)* [2015] VSC 126, discussed  
*Re Walker* (2005) 221 ALR 320  
*RWG Management Ltd v Commissioner for Corporate Affairs* [1985] VR 385, applied  
*Sanderson as liquidator of Sakr Nominees Pty Ltd (in liq) v Sakr* (2017) 93 NSWLR 459, considered

*Templeton v Australian Securities and Investment Commission (ASIC)* (2015) 108 ACSR 545, cited  
*Thackray v Gunns Plantations* (2011) 85 ACSR 144, cited  
*Venetian Nominees Pty Ltd v Conlan* (1998) 20 WAR 96, cited  
*Whyte v LM Investment Management Limited (in liq) (recvrs & mgrs apptd) & ors* [2015] QSC 303, cited

COUNSEL: P McQuade QC and J Peden for the applicant  
 S Brown QC and D de Jersey for the respondent

SOLICITORS: Russells for the applicant  
 Tucker & Cowen for the respondent

- [1] **Jackson J:** Some of the travails of LM Investment Management Ltd (“LMIM”) and the registered managed investment schemes and other trust funds which it administered are sketched in a number of judgments in this court.<sup>1</sup>

### **Remuneration application**

- [2] The present application is for orders that the remuneration of the first applicants as administrators and liquidators and some expenses are to be paid from the trust property of one or other of the relevant funds and for a determination of the proportion to be borne by each fund for amounts of non-specific remuneration or expenses. A second aspect is that the first applicants apply for an order to determine their remuneration as liquidators of LMIM, from 1 August 2013 to 30 September 2015. I will call this application the “Remuneration application”.
- [3] One of the registered managed investment schemes is the LM First Mortgage Income Fund (“FMIF”). LMIM is the responsible entity of the FMIF. LMIM has been directed by order to wind up the FMIF. As well, David Whyte has been appointed by order to take responsibility for ensuring that the FMIF is wound up in accordance with its constitution and the order. For that purpose, he was appointed receiver of the property of the FMIF. He appears on the application to represent the interests of the members of the FMIF only.
- [4] Notice of the application was given to other interested parties by email, advertisement and on the relevant internet website, but none apart from Mr Whyte appears to support or oppose.
- [5] The applicants for determination of the remuneration are the first applicants, Mr Park and Ms Muller. Both are official liquidators and accountants with expertise in insolvency who are consultants and directors of FTI Consulting. They also seek orders for the direct payment to them of the remuneration and expenses claimed from the trust property of the funds. LMIM, as the second applicant, is an additional applicant for the other orders.

<sup>1</sup> *Re Bruce & anor v LM Investment Management Limited & ors* [2013] QSC 192; *Re Bruce & Anor v LM Investment Management Limited & Ors (No 2)* [2013] QSC 347; *LM Investment Management Limited (in liq) v Bruce & ors* [2014] QCA 136; *Park & Muller (liquidators of LM Investment Management Ltd (in liq)) v Whyte* [2015] QSC 287; *Whyte v LM Investment Management Limited (in liq) (recvrs & mgrs apptd) & ors* [2015] QSC 303.

### Background facts

- [6] On 19 March 2013, the first applicants were appointed administrators of LMIM by a resolution of the directors.
- [7] At that time and since, LMIM was (as it remains) the responsible entity of the following registered investment schemes:
- (a) LM First Mortgage Income Fund ARSN 089 343 288 (“FMIF”);
  - (b) LM Australian Income Fund ARSN 133 497 917 (“AIF”);
  - (c) LM Australian Structured Products Fund ARSN 149 875 669 (“ASPF”);
  - (d) LM Cash Performance Fund ARSN 087 304 032 (“CPF”);
  - (e) LM Currency Protected Australian Income Fund ARSN 110 247 875 (“CP-AIF”); and
  - (f) LM Institutional Currency Protected Australian Income Fund ARSN 122 052 868 (“ICP-AIF”).
- [8] As well, LMIM was then trustee of a private trust known as the LM Managed Performance Fund (“MPF”).
- [9] Prior to the administrators’ appointment, LMIM acquired services from LM Administration Pty Ltd (“LMA”). Under a written service agreement dated 1 July 2010, as varied on 24 September 2012, (“First Services Agreement”) LMA provided employees, and leased premises and equipment necessary to operate the funds management business conducted by LMIM. The services supplied by LMA were identified as funds management services of an administrative nature and the preparation of financial statements. A term of the First Services Agreement provided that it terminated upon the appointment of an administrator to LMIM or LMA.
- [10] Each of the registered investment schemes was constituted with a custodian trustee. The Trust Company Limited (“PTAL”) was and is the custodian trustee. A custodian agreement was made between LMIM and PTAL relating to each of the schemes. When a loan was made to a borrower from a fund, PTAL as lender would be the lender to the borrower under the loan agreement and the mortgagee or chargee under any associated security.
- [11] At relevant times, if a borrower defaulted, PTAL entered into separate agreements with LMIM relating to any enforcement of the loan agreement or exercise of any rights under any associated security. The agreements were styled an “Appointment of Agent” and “Agents Indemnity” (collectively “Appointment of Agent Agreement”). PTAL appointed LMIM as agent to exercise PTAL’s rights under the relevant loan agreement and securities. These arrangements were called “controllerships” in the evidence.
- [12] From about April 2011, if a borrower defaulted, PTAL, LMIM and LMA entered into a further separate agreement, in relation to the loan and relevant securities, for that borrower. It was styled a “Loan Management Agreement”. In addition to the fees payable by LMIM to LMA under the First Services Agreement, a fee called a “loan management fee” was charged under the Loan Management Agreement for the services provided by LMA for enforcement of the loan in default, payable by

PTAL to LMA. LMIM (as agent on behalf of PTAL) would pay the loan management fee to LMA from the assets of the FMIF.

- [13] If the enforcement actions were successful, it was intended that the borrower would be responsible to pay the loan management fee as a recoverable cost or expense under the mortgage or other securities and thereby reimburse the FMIF. The evidence does not show that any borrower did repay any loan management fees, in fact.
- [14] On 19 March 2013, the first applicants were also appointed administrators of LMA.
- [15] On 21 March 2013, the first applicants on behalf of LMIM and LMA entered into a further services agreement (“Second Services Agreement”). That agreement continued for a period of approximately four and a half months, ending in July 2013.
- [16] Also from that time, the first applicants decided to continue with the appointment of LMIM and the retainer of LMA in relation to the controllerships and payment of loan management fees to LMA under the Loan Management Agreements for the loans in default.
- [17] On 1 April 2013, the first creditors’ meeting of LMIM was held.<sup>2</sup>
- [18] On 12 April 2013, LMIM was removed as trustee of the MPF. It was replaced by KordaMentha Pty Ltd and Calibre Capital Ltd.
- [19] On 11 July 2013, Deutsche Bank AG was a secured creditor of the FMIF. It appointed Joseph Hayes and Anthony Connelly of McGrathNicol (“DB Receivers”) as receivers and managers of the assets and undertaking of the FMIF.<sup>3</sup>
- [20] On 26 July 2013, David Clout and Lorraine Smith were appointed liquidators of LMA.
- [21] On 31 July 2013, a meeting of a committee of creditors of LMIM resolved to approve the first applicants’ remuneration as administrators of LMIM for the period 19 March 2013 to 30 June 2013 in the sum of \$2,429,702.49.<sup>4</sup>
- [22] On 1 August 2013, the second meeting of creditors of LMIM resolved that LMIM be wound up.<sup>5</sup> LMIM thereby went into a deemed creditors voluntary winding up.<sup>6</sup> The administrators were appointed liquidators.
- [23] On 8 August 2013 and 21 August 2013, a Judge of the court made the orders directing LMIM to wind up the FMIF and appointing Mr Whyte as previously mentioned.<sup>7</sup> The final orders other than as to costs were made on 21 August 2013.

<sup>2</sup> *Corporations Act 2001 (Cth)*, s 436E.

<sup>3</sup> This language is taken from the affidavit material that treats the FMIF as a legal entity, which it is not. But I take it to mean that LMIM or the custodian gave securities to Deutsche Bank which enabled Deutsche Bank to appoint receivers to assets of the FMIF.

<sup>4</sup> *Corporations Act 2001 (Cth)*, s 449E(i)(a).

<sup>5</sup> *Corporations Act 2001 (Cth)*, s 439C(c).

<sup>6</sup> *Corporations Act 2001 (Cth)*, s 446A.

<sup>7</sup> *Re Bruce & Anor v LM Investment Management Limited & Ors* [2013] QSC 192. The final orders other than as to costs were made on 21 August 2013.

- [24] From the time of the administrators' appointment, the only property of the CP-AIF and ICP-AIF were units in the FMIF, approximating 26.6 percent of the units on issue in the FMIF. Accordingly, they are referred to as "Feeder Funds" in the evidence.
- [25] The FMIF, MPF and AIF accounted for more than 95 percent of the funds under management by LMIM at the time of the appointment of the administrators and liquidators.
- [26] On 25 September 2014, PTAL terminated LMIM's appointments under six remaining Appointment of Agent agreements.

#### **Business of the FMIF**

- [27] At the time of the appointment of the first applicant as administrators, the FMIF had 4,500 members holding varying numbers of units. They were investors who had purchased units in the fund at the price of \$1 per unit.
- [28] Also at that time, the FMIF had a portfolio of assets comprising 27 commercial loans made with respect to projects to develop properties in the aged care, commercial, industrial, residential and specialised residential sectors. The historical book value of the loans was \$326,102,759. The majority of the loans were in default. The underlying properties were in various stages of planning or development. There was a high exposure to the aged care sector.
- [29] The administration work for the FMIF and the other funds was undertaken by LMA.
- [30] From their appointment as administrators on 19 March 2013 until the appointment of the DB Receivers on 11 July 2013, the first applicants were solely responsible for the administration of the FMIF and the other funds.
- [31] From 11 July 2013 until Mr Whyte was appointed on 8 and 21 August 2013, the first applicants and LMIM's control of the property of the FMIF was subject to the powers and direction of the DB Receivers. Mr Park says that the DB Receivers did not assume day to day control of the business of the FMIF.
- [32] After 21 August 2013, the property of the FMIF passed from LMIM into the control of Mr Whyte, subject to two points: first, the DB Receivers appointment; second, under the Appointment of Agent agreements (and/or Loan Management Agreements) LMIM retained a role in what are called the controllerships. Thereafter, the administration of the property of the FMIF focussed on the sale and readiness for sale of the properties.
- [33] By the end of January 2014, Deutsche Bank's debt was repaid. However, curiously, the appointment of the DB Receivers was not terminated. It is not necessary to say more about that in these reasons.

#### **Summary of claims for remuneration and expenses**

- [34] The applicants break up their claims for payment of remuneration and some expenses from the trust property of the funds and determination of the liquidators' remuneration by reference to the different appointments, different time periods and the connection of the claimed item to a particular fund.

- [35] First, amounts are identified and claimed for the period of the appointment of the first applicants as administrators between 19 March 2013 and 31 July 2013. Second, separate amounts are identified and claimed for the period of the first applicants' appointment as liquidators between 1 August 2013 and 30 September 2015. There are other relevant dates within those periods, as will appear later. Third, the claims over both periods are broken into separate claims for remuneration specific to one of the funds, labelled as a "Category 1" claim, and undifferentiated claims for remuneration that is not specific to any one fund, labelled as the "Category 2" claims, which are to be apportioned among the funds. Fourth, separate amounts are identified for some expenses, included in both Category 1 and Category 2 claims.
- [36] Overall, the applicants claim to be entitled to indemnity and payment from the trust property of the relevant funds for their claims for remuneration and some expenses for a period of over two years and seven months. Ultimately, the applicants submitted that the total amount was in excess of \$4.23 million.

#### **Statutory framework for remuneration and expenses**

- [37] For a trust subject to the law of this State, the trust instrument may expressly provide for the trustee's remuneration.
- [38] Section 101(1) of the *Trusts Act 1973* (Qld) ("TA") provides:
- "The court may, in any case in which the circumstances appear to it so to justify, authorise any person to charge such remuneration for the person's services as trustee as the court may think fit."
- [39] Similarly, for a trust subject to the law of this State, the trust instrument may expressly provide for the trustee to be indemnified by recoupment or exoneration of expenses.
- [40] Section 72 of the TA provides:
- "[a] trustee may reimburse himself or herself for or pay or discharge out of the trust property all expenses reasonably incurred in or about the execution of the trusts or powers."
- [41] For a registered managed investment scheme, there are specific further statutory provisions. Section 601GA(2) of the *Corporations Act 2001* (Cth) ("CA") provides:
- "(2) If the responsible entity is to have any rights to be paid fees out of scheme property, or to be indemnified out of scheme property for liabilities or expenses incurred in relation to the performance of its duties, those rights:
- (a) must be specified in the scheme's constitution; and
- (b) must be available only in relation to the proper performance of those duties;
- and any other agreement or arrangement has no effect to the extent that it purports to confer such a right."
- [42] Section 601FH provides:



“If the company that is a registered scheme's responsible entity is being wound up, is under administration or has executed a deed of company arrangement that has not terminated:

- (a) a provision of the scheme's constitution, or of another instrument, is void against the liquidator, or the administrator of the company or the deed, if it purports to deny the company a right to be indemnified out of the scheme property that the company would have had if it were not being wound up, were not under administration, or had not executed a deed of company arrangement; and
- (b) a right of the company to be indemnified out of the scheme property may only be exercised by the liquidator or the administrator of the company or the deed.”

[43] As the responsible entity of the FMIF, LMIM is a trustee of the trust property of the fund.<sup>8</sup> Under the constitution of the fund and the law of trusts, it has a potential entitlement to indemnity for remuneration or fees and expenses, subject to s 601GA(2) of the CA. Thus, LMIM's right to be paid fees, or to be indemnified for a liability or an expense out of scheme property must be specified in the scheme's constitution, is only available for the proper performance of its duties as responsible entity and may only be exercised by the first applicants.

#### **Constitution of the FMIF**

[44] Clause 18.4 of the constitution of the FMIF provides:

“The RE shall be entitled to fees in relation to the following duties:

- (a) the subscription and withdrawal of Units;
- (b) the transfer or transmission of Units;
- (c) the establishment/loan application fees;
- (d) the structuring or packaging of loan proposals;
- (e) loan management;
- (f) the rollover of a loan facility;
- (g) due diligence enquiries generally;
- (h) the sale of real estate or assets of the Scheme Property;
- (i) the promotion and management of the Scheme;
- (j) the appointment of the Custodian pursuant to the Custody Agreement;
- (k) the winding-up of the Scheme;
- (l) the performance of its duties and obligations pursuant to the Law and this Constitution.”

[45] Clause 18.5 of the constitution of the FMIF provides:

“The RE shall be indemnified out of Scheme Property for liabilities or expenses incurred in relation to the performance of its duties, including:

- (a) Auditor's fees;
- (b) legal fees and outgoings in relation to settlement, rollover, default or recovery of loans;
- (c) barrister/QC - legal counsel fees;

<sup>8</sup> *Corporations Act 2001* (Cth), s 601FC(2).

- (d) search fees including property searches, company, bankruptcy, CRAA searches and any other searches which may be necessary to enable location, identification and/or investigation of borrowers/guarantors/mortgagors;
- (e) valuation fees;
- (f) independent expert's or consultant's fees including but not limited to marketing agents, property specialists, surveyors, quantity surveyors, town planners, engineers;
- (g) property report/property consultant fees;
- (h) process servers' fees;
- (i) private investigator fees;
- (j) fees in relation to the marketing and packaging of security properties for sale;
- (k) real estate agent's-sales commissions;
- (l) costs of maintenance of mortgage securities;
- (m) outstanding accounts relating to mortgage securities such as council rates;
- (n) locksmith for changing locks of mortgage securities as appropriate;
- (o) insurance (property and contents);
- (p) removalists for removal of borrower's property as appropriate;
- (q) security guards to attend mortgage securities as appropriate;
- (r) building and/or property inspection report fees - i.e. building, town planning experts and the like;
- (s) all ASIC charges;
- (t) all costs of supplying Members with copies of this Constitution and any other documents required by the Law to be provided to Members;
- (u) all costs and expenses incurred in producing PDS' and Supplementary PDS' or any other disclosure document required by the Law;
- (v) reasonable costs incurred in protesting or preserving all assets offered as security;
- (w) all liability, loss, cost, expense or damage arising from the proper performance of its duties in connection with the Scheme performed by the RE or by any agent appointed pursuant to s 601FB(2) of the Law;
- (x) any liability, loss, cost, expense or damage arising from the lawful exercise by the RE and the Custodian of their rights under the Power of Attorney contained in clause 20;
- (y) fees and expenses of any agent or delegate appointed by the RE;
- (z) bank and government duties and charges on the operation of bank accounts;
- (aa) costs, charges and expenses incurred in connection with borrowing money on behalf of the Scheme under the Constitution;
- (bb) insurances directly or indirectly protecting the Scheme Property;
- (cc) fees and charges of any regulatory or statutory authority;
- (dd) taxes in respect of the Scheme but not Taxes of the RE [save and except any goods and services or similar tax ("GST")] which are payable by the RE on its own account;

- (ee) costs of printing and postage of cheques, advises, reports, notices and other documents produced during the management of the Scheme;
- (ff) expenses incurred in connection with maintaining accounting records and registers of the Scheme and of the Scheme Auditor;
- (gg) costs and disbursements incurred in the preparation and lodgement of returns under the Law, Tax Act or any other laws for the Scheme;
- (hh) costs of convening and holding meetings of Members;
- (ii) costs and disbursements incurred by or on behalf of the RE in connection with its retirement and the appointment of a substitute;
- (jj) costs and disbursements incurred by the RE in the initiation, conduct and settlement of any court proceedings;
- (kk) costs of any insurance premiums insuring against the costs of legal proceedings (whether successful or not) including legal proceedings against Compliance Committee Members not arising out of a wilful breach of a duty referred to in S601 JD of the Law;
- (ll) costs of advertising the availability of funds for lending;
- (mm) brokerage and underwriting fees;
- (nn) if and when the RE becomes responsible to pay any GST in respect of any services provided to the Scheme or any payments in respect of GST to be made by the Members or the RE in respect of the Scheme or under the terms of this Constitution then the RE shall be entitled to be indemnified in respect of such GST from the Scheme Property;
- (oo) if there is any change to the Law or ASIC policy whereby the RE is required to alter the structure of the Scheme or amend this Constitution, then the costs of the RE in complying with these changes will be recoverable out of the Scheme Property.”

[46] Clause 19 of the Constitution of the FMIF further provides:

“19.1 The following clauses apply to the extent permitted by law:

- (a) The RE is not liable for any loss or damage to any person (including any member) arising out of any matter unless, in respect of the matter, it acted both:
  - (i) otherwise than in accordance with the Constitution and its duties; and
  - (ii) without a belief held in good faith that it was acting in accordance with this Constitution or its duties.

In any case, the liability of the RE in relation to the Scheme is limited to the Scheme Property, from which the RE is entitled to be, and is in fact, indemnified.
- (b) In particular, the RE is not liable for any loss or damage to any person arising out of any matter where, in respect of that matter:
  - (i) it relied in good faith on the services of, or information or advice from, or purporting to be from, any person appointed by the RE;
  - (ii) it acted as required by Law; or
  - (iii) it relied in good faith upon any signature, marking or documents.

- (c) In addition to any indemnity under any Law, the RE has a right of indemnity out of Scheme Property on a full indemnity basis, in respect of a matter unless, in respect of that matter, the RE has acted negligently, fraudulently or in breach of trust.
- (d) ...”

[47] The applicants rely only in a general way on those provisions for the orders sought. The constitutions of the other funds do not differ in a material way.

#### **First applicants as administrators**

- [48] Under s 449E(1) of the CA, an administrator of a company under administration is entitled to receive such remuneration as is determined by the committee of creditors or resolution of the company’s creditors or by the court.
- [49] As there has been agreement between the administrators and a committee of creditors and a resolution of LMIM’s creditors as to the first applicants’ remuneration as administrators, the applicants do not require a determination of the court for the first applicants’ entitlement to that remuneration as administrators as against LMIM, for the following periods and amounts:

Period	Amount
19 March 2013 – 30 June 2013	\$2,429,702.49
1 July 2013 – 31 July 2013	\$817,782
<b>Total</b>	<b>\$3,247,484.49</b>

- [50] The orders sought by the application for payment of the first applicants’ remuneration as administrators are for a direction under s 96 of the TA or pursuant to s 449E of the CA that their remuneration (and some expenses) as administrators be borne as to particular amounts by the respective funds. The amount of the administrators’ remuneration for which those orders are sought by the application is \$2,185,229.81, not the approved remuneration of \$3,247,489.49. It does not appear how that difference is to be reconciled.
- [51] By the time of the final written submissions the amount claimed for payment of the first applicants’ remuneration and expenses as administrators was further reduced to \$2,152,321.05. That was also the total of the amounts for remuneration and expenses sought by the applicants in a draft order submitted after the hearing of the application (“Draft Order”).
- [52] Under s 449E(4) of the CA, when the court exercises the power to determine the remuneration of an administrator, it must have regard to whether the remuneration is “reasonable”, taking into account the following factors:
- “(a) the extent to which the work performed by the administrator was reasonably necessary;
  - (b) ...
  - (c) the period during which the work was ... performed by the administrator;

- (d) the quality of the work performed ... by the administrators;
- (e) the complexity (or otherwise) of the work performed ... by the administrator;
- (f) the extent (if any) to which the administrator was ... required to deal with extraordinary issues;
- (g) the extent (if any) to which the administrator was ... required to accept a higher level of risk or responsibility than is usually the case;
- (h) the value and nature of any property dealt with ... by the administrator;
- (i) Whether the administrator was ... required to deal with:
  - (i) ...
  - (ii) one or more receivers and managers;
- (j) the number, attributes and behaviour ... of the company's creditors;
- (k) if the remuneration is ascertained in whole or in part on a time basis:
  - (i) the time properly taken ... by the administrator in performing the work; and
  - (ii) whether the total remuneration payable to the administrator is capped; and
- (l) any other relevant matters.”

[53] Section 449E is concerned with remuneration, not expenses.<sup>9</sup>

[54] Ordinarily, the expenses of administration of a company would be met from the property of the company.

[55] Under s 443D of the CA, where an administrator of a company is liable for a debt under Pt 5.3A Div 9 Subdiv A of the CA, or for any other debts or liabilities incurred in good faith and without negligence by the administrator in the performance or exercise of his or her functions or powers as administrator, they will be entitled to an indemnity from the company's property. This is not subject to the court's determination under s 449E(1). In addition, the right of indemnity extends to remuneration that has been determined under s 449E: s 443D(b).

[56] Any entitlement of the first applicants to be indemnified from the trust property of a relevant fund for their remuneration and expenses as administrators is not otherwise provided for in the statutory framework.

#### **First applicants as liquidators**

[57] The voluntary winding up of LMIM is regulated by Pt 5.5 of the CA. Under s 499(3) the remuneration of the liquidators may be fixed by a committee of inspection, if one is appointed, or by resolution of the creditors. Neither of those steps was taken in relation to the first applicants' remuneration as liquidators.

[58] In the case of a winding up by the court, where there is no agreement between the liquidator and any committee of inspection or resolution of the creditors, a liquidator appointed by the court is entitled to receive remuneration as is “determined” by the court: s 473(3)(b)(ii) of the CA.

<sup>9</sup> *Re Timeshare Resort Club Ltd (in liq)* (2010) 187 FCR 13, [41]-[44].

[59] Under s 473(10), in exercising the power under s 473(3) to determine the remuneration the Court must have regard to whether the remuneration is “reasonable” taking into account the following factors:

- “(a) the extent to which the work performed by the liquidator was reasonably necessary;
- (b) ...;
- (c) the period during which the work was... performed by the liquidator;
- (d) the quality of the work performed... by the liquidator;
- (e) the complexity (or otherwise) of the work performed... by the liquidator;
- (f) the extent (if any) to which the liquidator was.. required to deal with extraordinary issues;
- (g) the extent (if any) to which the liquidator was... required to accept a higher level of risk or responsibility than is usually the case;
- (h) the value and nature of any property dealt with... by the liquidator;
- (i) whether the liquidator was... required to deal with:
  - (i) ...
  - (ii) one or more receivers and managers;
- (j) the number, attributes and behaviour... of the company's creditors;
- (k) if the remuneration is ascertained, in whole or in part, on a time basis:
  - (i) the time properly taken, or likely to be properly taken, by the liquidator in performing the work; and
  - (ii) whether the total remuneration payable to the liquidator is capped;
- (l) any other relevant matters.”

[60] Under s 511(1) of the CA, a liquidator of a company in a creditor’s voluntary winding up may apply to the court to exercise all or any of the powers that the court might exercise if the company were being wound up by the court.

[61] The application seeks an order that the first applicants’ remuneration as liquidators be determined and fixed, presumably meaning as if under s 473(3). Although no committee of inspection or meeting of creditors has considered the first applicants’ remuneration as liquidators, there is no dispute that the first applicants are entitled to apply to the court to determine and fix the remuneration.<sup>10</sup>

[62] Again, the remuneration to be determined and fixed under these provisions does not include expenses.

[63] Accordingly, the function of the court in determining the remuneration of the first applicants as liquidators is informed by the statutory criterion of reasonableness having regard to the list of relevant considerations to be taken into account.

[64] The statutory provisions relating to the court’s determination of an administrator’s or liquidator’s entitlement to remuneration have been amended from time to time. The relevant provisions set out previously were introduced from December 2007.

<sup>10</sup> Compare *Alphena Pty Ltd (in liq) v PS Securities Pty Ltd* (2013) 94 ACSR 160, 164 [32]; *re Walker* (2005) 221 ALR 320, 329-330 [32]-[34].

- [65] However, the relevant considerations and the process to be followed on such an application had been well canvassed in earlier case law.<sup>11</sup> A number of principles are well established. The recent amendments introduced by the *Insolvency Law Reform Act 2016* (Cth) do not apply to this case under the transitional arrangements.
- [66] It is not envisaged under the CA that a liquidator will be liable personally on all transactions made on behalf of the company in liquidation, and a liquidator is not liable to incur any expense in relation to the winding up of the company unless there is sufficient available property: s 545(1).
- [67] No specific provision is made in the CA for a liquidator to have a right of indemnity from the property of the company either for their remuneration or for expenses they may properly incur. But those rights are assumed to exist, and the priority of payment of debts and expenses recognises their existence.
- [68] Section 556(1) provides that in the winding up of a company some debts and claims must be paid in priority to all other unsecured debts and claims. In particular, s 556(1)(a) provides that the debts and claims that must be paid in priority to all other unsecured debts and claims include “expenses... properly incurred by a [liquidator] in preserving, realising or getting in property of the company or in carrying on the company’s business.”
- [69] Second, s 556(1)(de), provides that the debts and claims that must be paid in priority to all other unsecured debts and claims include “deferred expenses”. As defined in s 556(2)(a), “deferred expenses” means expenses properly incurred by a liquidator in so far as they consist of remuneration or fees for services payable to the liquidator or expenses incurred by a liquidator in respect of the supply of services to the liquidator by an employee of the liquidator.

#### **Liquidators’ direct payment claims**

- [70] The first applicants claim direct payment for their remuneration as liquidators and for some expenses from the trust property of the funds. That is not provided for in the CA in the statutory framework of a liquidator’s management of a company in liquidation.
- [71] Section 555 of the CA provides that, except as provided by the CA, all debts and claims proved in a winding up rank equally and if “the property of the company” is insufficient to meet them in full, they must be paid proportionately. The assumption is that debts and claims will be paid from the property of the company. However, where a company is trustee of a private trading trust, including the funds in the present case, the trust property is not property of the company.<sup>12</sup>
- [72] As previously mentioned, the applicants do not rely on LMIM’s express right to remuneration under the constitution of the FMIF as justifying the orders for payment of the first applicants’ remuneration. Nor do they rely on any possible right to remuneration under s 101 of the TA.

<sup>11</sup> *Venetian Nominees Pty Ltd v Conlan* (1998) 20 WAR 96, 99F, 102-104; *Re Solfire Pty Ltd (in liq) (No 2)* [1999] 2 Qd R 182, 190-192 and 194.

<sup>12</sup> *Re Obie Pty Ltd* [1984] 1 Qd R 371, 376.

- [73] Instead, they rely upon the court's powers, in the context of a company winding up, to order that the liquidator of a trustee company be paid remuneration and expenses from trust property. The cases on which the applicants rely accept a right to an indemnity or allowance from trust property in some circumstances. However, it must be acknowledged that the basis in principle for that conclusion is not clearly settled. More than one basis is discussed in the cases. In this case, it is necessary to deal with part of the first applicants' claim for an order for the payment of their remuneration from trust property at the level of principle, so it will be necessary to say something more about the cases.
- [74] Given that LMIM is the responsible entity and trustee, not the first applicants, the starting point is that the first applicants' remuneration as liquidators is not payable from the trust property, as a matter of course.
- [75] In the usual course, a company, as trustee, has a right of indemnity by recoupment from the trust assets for debts properly incurred and paid from the property of the company. That right of indemnity is property. If a trustee company that is entitled to an indemnity goes into liquidation the right of indemnity is property of the company from which the liquidator would be entitled to pay his or her remuneration, and expenses, as priority debts in the winding up under s 556 of the CA.<sup>13</sup> This is no more than a conventional statement of a liquidator's right to payment of remuneration as deferred expenses from the property of the company. It is not apposite to a direct claim by a liquidator to payment of remuneration or expenses from the property of a trust of which the company is trustee.
- [76] However, an alternative basis for a liquidator's direct claim to payment of remuneration and expenses from trust property exists. In *re Suco Gold Pty Ltd (in liq)*,<sup>14</sup> a liquidator sought orders that he would be entitled to apply moneys from the sale of trust assets in payment of the costs and expenses (including remuneration) properly incurred in the winding up. The company had carried on business as trustee of the relevant trust as its sole business.
- [77] There are a number of points that emerge from the reasons of King CJ in *re Suco Gold*. The passage of interest is:

"It is now necessary to consider the position of the liquidator's costs, expenses and remuneration in the light of the above principles. Although I have not found myself able to agree with certain of the reasoning in *Re Enhill Pty Ltd*, it is, as a decision of the Full Supreme Court of Victoria, a highly persuasive authority for the proposition that the liquidator's costs, expenses and remuneration may be paid out of the trust property. There are clearly strong practical considerations in favour of such a course. Unless that course can be followed, the liquidation of a trustee company without assets of its own cannot proceed. It seems to me that that course can be justified by reference to the obligations of the trustee company arising out of the carrying on of the business authorized by the trusts. It is part of the duty of the trustee company to incur debts for the purposes of the trust businesses and, of course, to pay those debts. Upon winding up, those debts can only be paid in accordance with the provisions of the Companies Act.

<sup>13</sup> *Re Enhill Pty Ltd* (1982) 7 ACLR 8.

<sup>14</sup> (1983) 33 SASR 99.



This requires necessarily that there be a liquidator and that he incur costs and expenses and be paid remuneration. Section 292 provides that there be paid the costs and expenses of winding up, the taxed costs of the petitioner and the remuneration of the Liquidator “in priority to *other* unsecured debts” (emphasis mine). The expression “*other* unsecured debts” appears to imply that the costs and expenses of winding up, the petitioner's costs and the liquidator's remuneration are regarded by the statute as debts of the company. As the company's obligation as trustee to pay the debts incurred in carrying out the trust cannot be performed unless the liquidation proceeds, it seems to me to be reasonable to regard the expenses mentioned above as debts of the company incurred in discharging the duties imposed by the trust and as covered by the trustee's right of indemnity. If that reasoning is wrong, I would, like Lush J in *Re Enhill Pty Ltd*, be prepared to rely on the principle enunciated by Dixon J in *In re Universal Distributing Co Ltd (in Liquidation)*<sup>15</sup> (footnotes omitted)

[78] Dixon J's statement in *In re Universal Distributing Co*<sup>16</sup> was:

“The debenture-holders are creditors who have a specific right to the property for the purpose of paying their debts. But if it is realised in the winding up, a proceeding to which they are thus parties, the proceeds must bear the cost of the realisation just as if they had begun a suit for its realisation or had themselves realised it without suit...

In applying this principle, only those expenses appear to have been thrown against the fund belonging to the debenture-holders which have been reasonably incurred in the care, preservation and realisation of the property. In the present case the liquidator has employed a material part of his time and energies in recovering moneys, both uncalled capital and debts, which enure for the debenture-holder, and in so far as these services increase the remuneration which he receives, I see no reason why the burden should not be thrown upon the proceeds. The question is not whether moneys available for unsecured creditors should be relieved at the expense of the security. In such a case it may be said that the service of collecting enough to discharge the debenture must in any event be performed in order that a surplus may then arise in which the unsecured creditors may participate.”<sup>17</sup>

[79] A similar, but wider, principle has informed later decisions. In 1989, in *re Berkeley Applegate (Investment Consultants) Ltd (in liq); Harris v Conway*,<sup>18</sup> a liquidator applied for directions as to whether any part of his expenses and remuneration could be paid out of trust assets. The trust assets were loans to borrowers secured by real property mortgages held by the company as trustee on behalf of the beneficiary investors. The court held:

“The authorities establish, in my judgment, a general principle that where a person seeks to enforce a claim to an equitable interest in property, the court has a discretion to require as a condition of giving effect to that equitable interest that an allowance be made for costs incurred and for skill

<sup>15</sup> (1983) 33 SASR 99, 110.

<sup>16</sup> (1933) 48 CLR 171.

<sup>17</sup> (1933) 48 CLR 171, 174.

<sup>18</sup> [1989] Ch 32.

and labour expended in connection with the administration of the property. It is a discretion which will be sparingly exercised; but factors which will operate in favour of its being exercised include the fact that if the work had not been done by the person to whom the allowance is sought to be made, it would have had to be done either by the person entitled to the equitable interest... or by a receiver appointed by the court whose fees would have been borne by the trust property... and the fact that the work has been of substantial benefit to the trust property and to the persons interested in it in equity..."<sup>19</sup>

- [80] This basis has been relied on in later cases, although the statements of principle are not always clear or consistent.
- [81] So, in *re GB Nathan & Co Pty Ltd (in liq)*,<sup>20</sup> in a case where the trusts were not active trading trusts, it was held that a liquidator's work in relation to trust assets for the purpose of winding up the affairs of the company should be paid from the non-trust assets first, after which it would be appropriate to apply the *Berkeley Applegate* principle.<sup>21</sup>
- [82] And in *13 Coromandel Place Pty Ltd v CL Custodians Pty Ltd (in liq)*,<sup>22</sup> Finkelstein J went further again:

"These cases establish, clearly enough in my opinion, that provided a liquidator is acting reasonably he is entitled to be indemnified out of trust assets for his costs and expenses in carrying out the following activities: identifying or attempting to identify trust assets; recovering or attempting to recover trust assets; realising or attempting to realise trust assets; protecting or attempting to protect trust assets; distributing trust assets to the persons beneficially entitled to them.

The position is a little more involved as regards work done and expenses incurred in what may be described as general liquidation matters. If that work is unrelated to the beneficiaries and their claims it is difficult to see how the cost could be charged against their assets. In the case of a company that has carried on the business of trustee it might be that much of the work involved in the liquidation is chargeable against trust assets if it can be shown that the liquidation is necessary for the proper administration of the trust. But it is unlikely that this will be so where the company did not act solely as trustee or at least did not act in that capacity to a significant extent. In that event, the liquidator will be required to estimate those of his costs that are attributable to the administration of trust property and only those costs will be charged against the trust assets."<sup>23</sup>

- [83] See also *re Sutherland; French Caledonia Travel Service Pty Ltd*<sup>24</sup> and *re AAA Financial Intelligence Ltd (in liq)*.<sup>25</sup>

<sup>19</sup> [1989] Ch 32, 50.

<sup>20</sup> (1991) 24 NSWLR 674.

<sup>21</sup> (1991) 24 NSWLR 674, 689.

<sup>22</sup> (1999) 30 ACSR 377.

<sup>23</sup> (1998) 30 ACSR 377, 385.

<sup>24</sup> (2003) 59 NSWLR 361, 422-429.

<sup>25</sup> [2014] NSWSC 1004, [13]-[18].

- [84] In Australia, more recent cases would appear to reinforce a liquidator's right to indemnity from the property of the trust for remuneration or expenses of the administration of the winding up when the only business of the company was acting as trustee of a private trust.
- [85] In *Parbery v ACT Superannuation Management Pty Ltd & ors*,<sup>26</sup> it was held that a liquidator's costs and expenses in relation to one trust could not be charged to another trust where the company is trustee of more than one trust, but that if expenses of administration between various trusts cannot be apportioned with some accuracy, they were to be borne equally.<sup>27</sup>
- [86] In *re Garra Water Investments Pty Ltd (in liq) v Ourback Yard Nursery Pty Ltd*,<sup>28</sup> it was held that where a company's only business had been to act as trustee of a trust business, the liquidator's expenses of finalising creditors' claims (for debts incurred as trustee) against the company and steps taken to preserve assets to meet those debts were the subject of a right of indemnity from the company's assets as trustee, notwithstanding that the company had been removed as the trustee after the winding up commenced.
- [87] In *re Independent Contractor Services (Aust) Pty Limited (in liq) (No 2)*<sup>29</sup> Brereton J said:

“The liquidators of a company which is the trustee of a trading trust and has no other activities, are entitled to be paid their costs and expenses, whether for administering the trust assets or for ‘general liquidation work’, out of the trust assets.”<sup>30</sup>

- [88] And in *Primespace Property Investment Limited (in liq)*<sup>31</sup> Black J re-stated the principles he had formulated in *re National Buildplan Group Pty Ltd (subject to deed of company arrangement)*<sup>32</sup> as follows:

“the court has an inherent jurisdiction to allow an insolvency practitioner, in his or her capacity as trustee of a fund, to receive payment of remuneration, costs and expenses out of trust assets: ... [and] a liquidator may, if acting reasonably, be indemnified out of trust assets for costs and expenses incurred in recovering or attempting to recover, realising or attempting to realise, or protecting or attempting to protect, trust assets and in distributing those assets to the persons beneficially entitled to them...”.

- [89] As may be apparent, some of these formulations tie the entitlement to indemnity for remuneration to the activities of the company as trustee (as the sole business of the company), whereas others tie it to costs and expenses incurred in relation to protection of the trust assets that would have to be incurred in any event. They are not the same things. A simple example illustrates the difference. There may not be

<sup>26</sup> (2010) 79 ACSR 425.

<sup>27</sup> (2010) 79 ACSR 425, 434 [34]. Compare *Brisconnections Management Company Ltd v Dalewon Pty Ltd* (2010) 79 ACSR 530, 539 [22].

<sup>28</sup> [2012] SASC 44.

<sup>29</sup> (2016) 305 FLR 222.

<sup>30</sup> (2016) 305 FLR 222, 232 [27]. See also *Re North Food Catering Pty Ltd* [2014] NSWSC 77, [9]-[17].

<sup>31</sup> [2016] NSWSC 1821.

<sup>32</sup> [2014] NSWSC 146.

any difficulty or significant costs associated with a liquidator preserving trust assets. For example, they might be liquid funds held in a bank account. Yet the administration of the company in liquidation may involve a significant amount of work to settle the list of creditors of the company (who all are also creditors of the trust). It would be inequitable, in my view, for the beneficiaries of the trust to be permitted to say that the liquidators' remuneration and expenses of admitting the creditors to proof are not recoverable against the assets of the trust when the creditors' debts are trust debts.

- [90] For that reason, in my view, the formulation in *re Independent Contractor Services* is to be preferred, where the business of the company was only carried on as trustee of the relevant trust.
- [91] I note that this may go further than one of the underpinnings for the right of indemnity referred to by King CJ in *re Suco*, namely that based on the principle of protection of trust assets stated in *In re Universal Distributing Co Ltd*.
- [92] I also note that the operation of the *Berkeley Applegate* principle was recently discussed in *Gillan v HEC Enterprises Ltd*.<sup>33</sup> That discussion is consistent with the entitlement of a liquidator to an allowance against the property of the trust for costs incurred and for skill and labour expended in connection with the administration of property where the work would have had to be done either by the person entitled to the property or by a receiver appointed by the court whose fees would have been borne by the trust property.<sup>34</sup> Nevertheless, the English cases have not gone so far as to accept that general liquidation work may also be covered where the company had no other business than the trust business and in general appear to accept that an allowance is usually made when the beneficiary requires the assistance of the court to obtain the trust property.
- [93] Summarising, although there is no shortage of cases under Australian law to suggest that a liquidator may not be entitled to a complete indemnity for the general costs of the liquidation, that reasoning does not appear to apply where the only business of the company that is identified is that the company acted as trustee of the relevant trust or trusts.

#### **Not solely a trustee of one trust**

- [94] Mr Whyte submits that LMIM did not carry on business solely as responsible entity and trustee of the FMIF. There are really two connected points. First, the FMIF was only one of the funds administered by LMIM as responsible entity and trustee. It also acted as responsible entity and trustee of each of the other registered schemes and as trustee of the MPF (until 12 April 2103). Second, LMIM had assets in its own right and was carrying on business as a funds' manager on its own account.
- [95] The question raised where a trustee carries on business as the trustee of more than one trust was considered in *Parbery*. Brereton J said:

“...beneficiaries of a group of trusts are, in law, entitled to insist that the common trustee, or common administrators or liquidators of a common trustee, treat each trust separately and act in the best interests of each trust.

<sup>33</sup> [2017] 1 BCLC 340, [71]-[89].

<sup>34</sup> [2017] 1 BCLC 340, [72].

The general equitable right of fiduciary loyalty in such a situation is clearly and expressly recognised in s 601FC(1)(c) of the CA, which provides that a responsible entity must act in the best interests of the members and, if there is a conflict between the members' interests and its own interests, it must give priority to the members' interests.

It is clear that the trustee of several separate trusts cannot charge the beneficiaries of one trust with the costs and expenses incurred in relation to work done for the benefit of another trust. If the trustee cannot, with some accuracy, apportion the expenses of administration between the various trusts, "the maxim that equality is equity should provide the solution to the problem of apportionment'...".

- [96] Accordingly, the circumstance that the trustee is acting for more than one trust does not preclude an order for payment of the liquidators' remuneration and expenses from trust property, but requires that the recourse be the appropriate amount attributable to each of the relevant trusts.
- [97] Where the trustee also carries on non-trust business, the position ordinarily requires a separation of the liquidator's remuneration and expenses that are attributable to the trust from that part of the liquidator's costs and expenses attributable to the company's non-trust business.
- [98] Mr Whyte relies on the following statement from *re AAA Financial Intelligence Ltd (in liq)*.<sup>35</sup>

"(1) Where the company is trustee of a trading trust and has no other activities, the liquidators are entitled to be paid their costs and expenses, whether for administering the trust assets or for "general liquidation work", out of the trust assets.

(2) Where the company does not act solely as trustee, costs and expenses referable to work done in relation to trust assets which may nonetheless be considered as having been done for the purpose of winding up the company ought ordinarily be borne primarily by the (non-trust) property of the company, to the extent that the assets permit.

(3) At least where the non-trust assets do not permit that course, and perhaps even when they do, a liquidator is entitled to be indemnified out of trust assets for his costs and expenses, but only to the extent that they are referable to administering the trust assets. This is pursuant to the court's equitable jurisdiction to allow a trustee remuneration costs and expenses out of trust assets, which extends to a person such as a liquidator who is, for practical purposes, controlling a trustee.

(4) In principle, where the liquidator does work which would entitle him both to remuneration as liquidator by the company, and recovery from the trust assets, there are two funds liable and there should be contribution between them. However, where there are no assets of the company available, it is unnecessary to consider the question of contribution. If a

<sup>35</sup> [2014] NSWSC 1004.

liquidator has done work which is attributable equally to the winding up of the company and the administration of trust assets, and there are no assets of the company at all to meet his expenses in doing so, the expenses are payable solely from the trust assets

(5) Where the liquidator is administering, through the company of which he/she is liquidator, more than one trust, the liquidator is not entitled to charge the beneficiaries of one trust with the costs and expenses incurred in relation to the other, although where allocation is not possible a *pari passu* allocation may be permitted.<sup>36</sup> (citations omitted)

- [99] The evidence was not clear on this question in Mr Park's first affidavit. There was no relevant balance sheet of LMIM showing its non-trust assets and liabilities. Mr Park said that the business of the company consisted only of operating its funds management business. Mr Whyte contended for the contrary view by his first submissions.
- [100] In his second affidavit, Mr Park stated that based on his investigations as administrator and liquidator of LMIM it is his opinion that it would be appropriate to characterise both LMIM and LMA as "professional trustees" and the "predominant purpose" of those companies as to act as responsible entity and trustee.
- [101] There are some difficulties with this evidence. First, although not objected to, it is not obviously a matter of accounting expertise to express an opinion that a company is a professional trustee. Still, the point does not seem contentious.
- [102] Second, the statement that LMA was a responsible entity or a professional trustee is incorrect. LMIM chose to conduct its business by contracting with LMA to provide services that encompassed functions and responsibilities that LMIM was required to carry out as responsible entity. Doing so did not constitute LMA as either the responsible entity or trustee of any of the funds. It was not stated by Mr Park that LMA operated so that its services were supplied under the First Services Agreement or Second Services Agreement without profit, except possibly from some time after the appointment of the first applicants as administrators, as the result of a decision they made not to charge for LMA's services in accordance with the terms of the Second Services Agreement, for the periods of their appointment as administrators and liquidators.
- [103] LMA was also appointed by PTAL to provide services on specific retainers under the Loan Management Agreements in relation to loans in default. These specific contractual relationships were associated with PTAL's appointments of LMIM as agent under the Appointment of Agent agreements, at least insofar as LMIM was concerned. They resulted in loan management fees being charged by LMA to PTAL. LMIM would pay the fee to LMA as agent on behalf of PTAL, from the assets of the relevant fund. In my view, nothing suggests that under these contractual relationships LMA was acting as responsible entity or as trustee of the relevant fund.

<sup>36</sup> [2014] NSWSC 1004, [13].

- [104] Mr Park's second affidavit exhibited an estimated statement of position of LMIM as at 31 January 2016. Apart from a cash amount of \$409,707, it showed that the assets were receivables from insurers and other sundry debtors. Before payment of unsecured creditors, the deficiency was in the range between \$1,470,796 (on the optimistic case) and \$2,433,416 (on the pessimistic case). Because of the priority of debts and claims payable under s 556 of the CA,<sup>37</sup> there are no assets in the administration of LMIM to pay the administrators or liquidators remuneration.
- [105] However, included in that estimated statement of position were liabilities for liquidators' remuneration in the amount of \$1,347,025.00 and liquidators' disbursements of \$33,466.00. In each case, the liability was also described as "LMIM Corporate". Although the parties devoted little attention to them, it appears that these items are for remuneration and expenses in the winding up of LMIM that do not relate to the funds. The other side of that coin is that the amounts claimed in this application are all amounts that relate to or are intended to relate to the funds.
- [106] In my view, overall, these facts do not show that this is a case where the remuneration and expenses the subject of this application should not be allowed as remuneration or expenses to be paid from the property of the funds on the ground that they are the general costs of the administration or liquidation of LMIM, incurred in circumstances where LMIM had a non-trust business to which the claimed remuneration and expenses should be allocated, thereby limiting recovery to the non-fund property of LMIM.
- [107] It is not unusual that a liquidator of a trustee company must administer the trust for the company, dealing with the creditors of the company who are creditors of the company as trustee. It is a necessary function of the liquidator to separate the "trust" liabilities from other liabilities of the company and to separate the property of the trust from any property of the company in liquidation in its own right.
- [108] I reject any general notion that a liquidator who does so and who may have a direct right to payment from the property of the trust for remuneration and expenses that must be incurred in carrying out those tasks is prejudiced if the company has some non-trust business as well as the business of the trust. It is up to the liquidators to separate the relevant tasks and remuneration and expenses. It is a question of adequate record keeping, not a lack of any legal entitlement, if the liquidator is unable to separate the non-trust remuneration and expenses.

#### **Administrators' remuneration and expenses from the funds**

- [109] It is not suggested that the principles that apply as to the first applicants' claims as liquidators for an order for payment of their remuneration from the trust property of the funds do not apply equally to the first applicants' claims as administrators for an order for payment of their remuneration and expenses from the trust property of the funds.<sup>38</sup>

#### **Evidence of the work performed for remuneration**

<sup>37</sup> Remuneration as "deferred expenses" ranks ninth in the order of payment under s 556(1)(de) of the CA.

<sup>38</sup> *Re Sutherland* (2004) 50 ACSR 297, 299-301, [10]-[17].

- [110] As previously stated, whether the remuneration in question is that of an administrator under s 449E(1)(c) of the CA or a liquidator under s 473(3)(b)(ii) of the CA the same principles apply, namely that a court determining remuneration must have regard to whether the remuneration is reasonable, taking into account the matters referred to in s 449E(4) and 473(1).
- [111] In his first affidavit, Mr Park set out the way in which the work for which the first applicants seek to be remunerated was carried out. There are some differences in the level of detail of the supporting documents that have been prepared for the different funds.
- [112] The Australian Restructuring Insolvency and Turnaround Association ("ARITA") publishes a Code of Professional Practice ("the ARITA Code"). Mr Park says that the systems used by FTI Consulting for time recording were designed to ensure compliance with the ARITA Code.
- [113] The ARITA Code recommends dividing work into seven categories. It also gives examples of the sort of work which falls into each category, which is the most useful means of explaining the categories. The categories and some of the relevant examples are:
- (a) "Assets" – including work relating to:
    - (i) the sale of real property or of a business as a going concern;
    - (ii) debtors;
    - (iii) identifying, managing and valuing stock;
  - (b) "Creditors" – including work relating to:
    - (i) responding to creditor enquiries;
    - (ii) preparing reports to creditors;
    - (iii) identifying and dealing with retention of title claims;
    - (iv) convening meetings of creditors;
  - (c) "Employees" – including work relating to:
    - (i) responding to employee enquiries;
    - (ii) calculation of employee dividends and entitlements;
    - (iii) dealing with matters relating to the Commonwealth Fair Entitlements Guarantee and General Employee Entitlements and Redundancy Scheme;
  - (d) "Trade On" – including work relating to:
    - (i) managing an ongoing business;
    - (ii) processing receipts and payments;
    - (iii) budgeting and financial reporting;
  - (e) "Investigation" – including work relating to:
    - (i) conducting investigations into the affairs of the company;
    - (ii) litigation or other Court matters (for example, public examinations);
    - (iii) reporting to ASIC;
  - (f) "Dividend" – including work relating to:
    - (i) processing proofs of debt;
    - (ii) determining and conducting the procedures relating to the



declaration of a dividend; and

- (g) "Administration" – including work relating to:
    - (i) general correspondence, document maintenance and the review of files;
    - (ii) dealing with insurers and administering the bank accounts of the winding up;
    - (iii) statutory reporting functions.
- [114] For the Category 1 claims, the base level document is a narration of each time entry for time claimed. The narrations are compiled into a chronological schedule. Each entry includes the name of the person doing the task, their position in the first applicant's firm, the charge out rate, the time charged (in hours and 6 minute units), the amount of the charge, a task description allocation to an ARITA code category and a one, two or three line narrative description. There are schedules in this form for the FMIF, AIF, ASPF, CPF, CP-AIF and ICP-AIF.
- [115] For the FMIF Category 1 claims, there is a further schedule styled "Fee Summary Descriptions – LM First Mortgage Income Fund". This schedule collects the work done into further categories and subcategories over particular periods. It sets out the work that was done according to an allocation to a particular subject area, a task description code and a summary of the tasks undertaken. It breaks the tasks down into more than 60 different categories across ten subject areas. The ten subject areas are Deutsche Bank reporting, general administration time, loan book management, controllership time not specifically allocated to category 3 (loan book management), fund level strategies and cash flow preparation, litigation, responsible entity statutory compliance, travel time – general, remuneration calculation and investor communications. The schedule collects, according to those allocations, the task description code, task description, number of recorded hours in units of one tenth of an hour and the resultant dollar amount. The allocations are spread over nine consecutive time periods.
- [116] As previously indicated, where a work item or line in the schedules is allocated specifically to a particular fund it is labelled as a Category 1 item or claim. The applicants, through Mr Park, say that all of the work claimed as Category 1 remuneration for the FMIF is for work which was directly associated with the external control of the FMIF.
- [117] The system for recording work deployed by the first applicants and their employees required the work producer to allocate the particular task or work to a code. There were codes for work specifically related to the FMIF. Mr Park says that some proportion of those allocations, although he could not presently say what proportion, was directly connected with the identification, recovery, realisation, protection or distribution of the assets of the FMIF or attempts at those things. In addition to the Fee Summary Descriptions schedule, and the detailed schedule of narratives that underlie it, Mr Park described the work carried out by the first applicants and their staff over the period of the applicants' claims.
- [118] Mr Park says that the work he believes to be directly referable to the FMIF involved the principal tasks of:

- (a) reporting to and dealing with the FMIF's secured creditor, Deutsche Bank, and its receivers, McGrath Nichol;
  - (b) managing the loan book of the FMIF;
  - (c) controllership time not specifically allocated to the loan accounts of one of the borrowers, but which nevertheless related to the FMIF;
  - (d) preparation of budgets, strategic overviews and cash flows for the FMIF;
  - (e) complying with the statutory obligations of LMIM as responsible entity;
  - (f) communicating with members;
  - (g) litigation involving LMIM as responsible entity of the FMIF; and
  - (h) general administrative time related to those tasks.
- [119] Mr Park says that the Category 2 work generally comprised the time for carrying out tasks referable to LMIM and the funds as a whole, being general funds management remuneration and expenses. The tasks include:
- (a) dealing with issues relating to the books and records of the funds, that were intermingled and not practicably separable;
  - (b) dealing with issues relating to insurance;
  - (c) administration and management of LMIM's fund management operations and its relationship with LMA;
  - (d) complying with the statutory obligations of LMIM as a responsible entity under the CA and other relevant legislation;
  - (e) tasks where it would be inequitable and impractical to make multiple entries across multiple funds for the item of work; and
  - (f) general administrative tasks for those matters.
- [120] Mr Park says that the delegation of the work to a particular staff member reflected the nature of the work. Less complex work was performed by junior staff members and more complex work was performed by senior staff members and the applicants.
- [121] Where the first applicants judged that work was not necessary for the efficient conduct of the administration of the liquidation of LMIM it was not performed. For example:
- (a) following Mr Whyte's appointment the first applicants minimised contact with members of the FMIF;
  - (b) following Mr Whyte's appointment the first applicants did not cause financial statements to be prepared in respect of the FMIF;
  - (c) the first applicants did not conduct a line by line review of Mr Whyte's application for approval of his remuneration;
  - (d) the applicants did not intervene in a Federal Court proceeding brought by ASIC against some of the former directors of LMIM; and
  - (e) the applicants have limited their involvement in proceedings in this court where possible.
- [122] Mr Park says that in his experience as an official liquidator the time recorded for each of the tasks in the schedules was commensurate with what was required to be undertaken and that the records are accurate.
- [123] The quantum of the remuneration for the period of the first applicants' appointment as administrators and liquidators up to 21 August 2013 is not disputed by Mr Whyte, subject to the questions specifically raised below.

[124] After 21 August 2013, the tasks related to the Category 1 remuneration for the FMIF included:

- (a) reviewing and updating cash flow models;
- (b) liaising with the DB Receivers and Mr Whyte concerning:
  - (i) the handover of day to day FMIF operations;
  - (ii) queries related to the ongoing processes for managing the undifferentiated financial records;
  - (iii) the scope of the work for LMIM;
  - (iv) staffing levels, the status of the various assets and insurance issues;
  - (v) the possibility of refinancing the debt of Deutsche Bank with a view to the DB Receivers retiring;
  - (vi) the administrators' and liquidators' right of indemnity;
- (c) dealing with the controllership matters where the work is not referable to the specific asset;
- (d) reviewing loan book documentation, preparing loan book strategy, reviewing and facilitating requests for payments out of the FMIF, liaising with the custodian in respect of securities and releases;
- (e) investigating and considering the possibility of a settlement with LMIM's insurer over a variety of claims;
- (f) receiving inquiries from creditors who may be indemnified out of the property of the FMIF;
- (g) perusing the various updates from Mr Whyte as to the status of the winding up of the FMIF;
- (h) reviewing the material prepared by Mr Whyte in support of each of the various applications for remuneration;
- (i) preparing and reviewing claims for indemnity against the property of the FMIF for creditors who may be indemnified out of the FMIF and for operational costs, legal costs and remuneration;
- (j) responding to requests for information from Mr Whyte, his lawyers and the DB Receivers; and
- (k) responding to litigation brought against LMIM and bringing applications.

[125] Mr Park identifies that the Category 2 work for the same period includes:

- (a) dealing with LMA employees and their role;
- (b) tasks incidental to running the business;
- (c) obtaining and dealing with legal advice in relation to LMA;
- (d) maintaining accounts and financial records;
- (e) preparing and updating cash flow projections;
- (f) dealing with leasing issues relating to LMA; and
- (g) analysing, calculating and paying operational costs.

[126] By way of further explanation of his view that the Category 2 work was for the benefit of the funds, Mr Park says that the work:

- (a) was such that it would be inequitable to charge to a particular fund;
- (b) tasks were incidental to the ongoing trading of the funds' business such as protocols for payments;
- (c) included dealing with media requirements;
- (d) included responding to requests for information from ASIC;

- (e) included dealing with matters relating to the various books and records issues;
  - (f) included communicating and closing various "satellite offices" of LMIM; and
  - (g) included dealing with inquiries from investor advisors.
- [127] These summary descriptions are not an exhaustive statement of Mr Park's evidence relating to the nexus between the work that was done and the purposes of the funds including the FMIF.

### Category 1 remuneration claims

#### *FMIF*

- [128] As set out in Mr Park's first affidavit, broken down into the ARITA Code categories for particular periods in accordance with the chronology of the administration and liquidation, the first applicants' claims for Category 1 remuneration as administrators and liquidators of LMIM relating to the FMIF were as follows:

Category	Total Hours	Amount (net of GST)
<b>Assets</b>		
For the period 19 March, 2013 to 10 July, 2013	807.90	\$284,031.50
For the period 11 July, 2013 to 7 August, 2013	54.1	\$26,516.00
For the period 8 August, 2013 to 31 December, 2013	24.7	\$12,841.00
For the period 1 January, 2014 to 31 March, 2014	7.2	\$3,525.50
For the period 1 April, 2014 to 30 June, 2014	0.7	\$411.00
For the period 1 July, 2014 to 30 September, 2014	12.1	\$6,532.00
For the period 1 October, 2014 to 31 December, 2014	2.4	\$1,215.00
For the period 1 January, 2015 to 30 June, 2015	0.7	\$394.00
For the period 1 July, 2015 to 30 September, 2015	0.4	\$120.00
<b>SUBTOTAL</b>	<b>910.20</b>	<b>\$335,586.00</b>
<b>Creditors</b>		
For the period 19 March, 2013 to 10 July, 2013	234.2	\$98,587.00
For the period 11 July, 2013 to 7 August, 2013	137.9	\$71,522.50
For the period 8 August, 2013 to 31 December, 2013	53.0	\$27,645.00
For the period 1 January, 2014 to 31 March, 2014	6.5	\$3,352.00
For the period 1 April, 2014 to 30 June, 2014	1.4	\$728.00
For the period 1 July, 2014 to 30 September, 2014	11.3	\$4,669.00
For the period 1 October, 2014 to 31 December, 2014	7.4	\$2,881.00
For the period 1 January, 2015 to 30 June, 2015	31.6	\$13,149.00
For the period 1 July, 2014 to 30 September, 2014	15.7	\$7,051.00
<b>SUBTOTAL</b>	<b>498.6</b>	<b>\$229,364.50</b>
<b>Trade on</b>		
For the period 19 March, 2013 to 10 July, 2013	1,164.80	\$415,868.96
For the period 11 July, 2013 to 7 August, 2013	234.30	\$122,064.50
For the period 8 August, 2013 to 31 December, 2013	455.60	\$210,425.00
For the period 1 January, 2014 to 31 March, 2014	152.80	\$64,820.50
For the period 1 April, 2014 to 30 June, 2014	79.5	\$39,308.00
For the period 1 July, 2014 to 30 September, 2014	136.1	\$65,877.50

For the period 1 October, 2014 to 31 December, 2014	36.2	\$16,228.00
For the period 1 January, 2015 to 30 June, 2015	68.0	\$37,057.00
For the period 1 July, 2015 to 30 September, 2015	32.2	\$17,900.50
<b>SUBTOTAL</b>	<b>2,359.50</b>	<b>\$989,549.96</b>
<b>Investigations</b>		
For the period 19 March, 2013 to 10 July, 2013	34.4	\$17,259.00
For the period 11 July, 2013 to 7 August, 2013	10.5	\$6,061.50
For the period 8 August, 2013 to 31 December, 2013	47.6	\$26,731.50
For the period 1 January, 2014 to 31 March, 2014	6.7	\$3,705.00
For the period 1 April, 2014 to 30 June, 2014	9.1	\$4,959.00
For the period 1 July, 2014 to 30 September, 2014	2.8	\$1,644.00
For the period 1 October, 2014 to 31 December, 2014	2.1	\$937.00
For the period 1 January, 2015 to 30 June, 2015	6.1	\$2,289.00
For the period 1 July, 2015 to 30 September, 2015	4.1	\$2,040.00
<b>SUBTOTAL</b>	<b>123.4</b>	<b>\$65,626.00</b>
<b>Dividend</b>		
For the period 19 March, 2013 to 10 July, 2013	0.0	\$0.00
For the period 11 July, 2013 to 7 August, 2013	0.0	\$0.00
For the period 8 August, 2013 to 31 December, 2013	0.0	\$0.00
For the period 1 January, 2014 to 31 March, 2014	0.0	\$0.00
For the period 1 April, 2014 to 30 June, 2014	1.0	\$299.00
For the period 1 July, 2014 to 30 September, 2014	1.8	\$486.00
For the period 1 October, 2014 to 31 December, 2014	0.0	\$0.00
For the period 1 January, 2015 to 30 June, 2015	3.5	\$1,538.00
For the period 1 July, 2015 to 30 September, 2015	0.0	\$0.00
<b>SUBTOTAL</b>	<b>6.3</b>	<b>\$2,323.00</b>
<b>Administration</b>		
For the period 19 March, 2013 to 10 July, 2013	79.4	\$37,728.40
For the period 11 July, 2013 to 7 August, 2013	50.8	\$26,718.50
For the period 8 August, 2013 to 31 December, 2013	42.5	\$14,329.50
For the period 1 January, 2014 to 31 March, 2014	32.4	\$10,238.50
For the period 1 April, 2014 to 30 June, 2014	52.7	\$26,559.00
For the period 1 July, 2014 to 30 September, 2014	82.8	\$39,921.00
For the period 1 October, 2014 to 31 December, 2014	26.6	\$10,398.50
For the period 1 January, 2015 to 30 June, 2015	9.3	\$3,467.00
For the period 1 July, 2015 to 30 September, 2015	8.1	\$3,508.00
<b>SUBTOTAL</b>	<b>384.6</b>	<b>\$172,868.40</b>
<b>TOTAL</b>	<b>4,283.0</b>	<b>\$1,795,537.86</b>

[129] Mr Park said that \$36,092.50 was paid against those amounts, leaving \$1,759,445.36 as the amount originally claimed for remuneration from the FMIF in the application.

[130] By the Draft Order, the applicants separated the amounts claimed as Category 1 remuneration and expenses from the FMIF to \$1,059,322.37 for the period of the first applicants' appointment as administrators (including Mr Corbett's consultancy fees) up to 31 July 2013 and \$739,323.31 for the period of the first applicant's

appointment as liquidators, from 1 August 2013 to 30 September 2015. By his final submissions in response to the Draft Order, Mr Whyte does not challenge the calculation of the final amounts in the Draft Order.

*Other Funds*

- [131] As set out in Mr Park's first affidavit, the Category 1 claims for payment of remuneration and expenses from the other funds were not broken down to the same extent as was done for the FMIF. The amounts for each fund over the relevant periods were:

<b>Fund</b>	<b>Hours</b>	<b>Amount (ex GST)</b>
<i>For the period 19 March, 2013 to 30 June, 2013</i>		
AIF		\$83,962.34
CPF		\$2,973.80
ASPF		\$2,087.76
CP-AIF		\$5,580.70
ICP-AIF		\$1,151.78
<i>For the period 1 July, 2013 to 30 June, 2014</i>		
AIF		\$273,124.35
CPF		\$34,905.54
ASPF		\$45,848.93
CP-AIF		\$24,724.75
ICP-AIF		\$11,520.76
<i>For the period, 1 July 2014 to 30 June, 2015</i>		
AIF		\$191,416.16
CPF		\$36,112.59
ASPF		\$53,000.35
CP-AIF		\$45,785.20
ICP-AIF		\$13,637.64
<i>For the period, 1 July 2015 to 30 September, 2015</i>		
AIF		\$71,177.25
CPF		\$18,777.08
ASPF		\$23,214.35
CP-AIF		\$15,645.88
ICP-AIF		\$6,412.97
<b>Total</b>		<b>\$961,060.18</b>

- [132] However, by the Draft Order, the applicants also altered those amounts, so that the total claimed as Category 1 remuneration for those funds is now \$454,776.40 broken up as follows:

- (a) AIF - the amounts claimed as Category 1 remuneration are \$119,131.90 for the period of the first applicants' appointment as administrators (including Mr Corbett's consultancy fees) and \$88,096 for the period of the first applicant's appointment as liquidators, totalling \$207,227.90;
- (b) CPF - the amounts claimed as Category 1 remuneration are \$3,927.50 for the period of the first applicants' appointment as administrators and \$118,858.50 for the period of the first applicant's appointment as liquidators, totalling \$122,786.00;
- (c) ASPF - the amounts claimed as Category 1 remuneration are \$4,463.00 for the period of the first applicants' appointment as administrators (including Mr Corbett's consultancy fees) and \$81,983.00 for the period of the first applicant's appointment as liquidators, totalling \$86,446.00;

- (d) CPF-AIF - the amounts claimed as Category 1 remuneration are \$9,060.50 for the period of the first applicants' appointment as administrators (including Mr Corbett's consultancy fees) and \$29,256.00 for the period of the first applicant's appointment as liquidators, totalling \$38,316.50;
- [133] For the period after 1 August 2013, the first applicants claim an order determining and fixing remuneration as liquidators as well as an order for payment from the funds of the relevant amounts.
- [134] Unfortunately, the evidence as to the Category 1 amounts for the other funds was not organised by reference to the same periods as stated in the application. That evidence broke the amounts into the periods 19 March 2013 to 30 June 2013, 1 July 2013 to 30 June 2014, 1 July 2014 to 30 June 2015 and 1 July 2015 to 30 September 2015. There was no explanation for the different timings. A logical reason is that neither the DB Receivers nor Mr Whyte were appointed to the property of the other funds.
- [135] As well, the total amounts of the Category 1 claims for the other funds in the evidence did not reconcile with the total of the amounts for which an order was sought in the Draft Order as set out above. The total of the amounts in the evidence appears to be higher.<sup>39</sup>

#### Category 2 remuneration claims

- [136] As set out in Mr Park's first affidavit, again adopting the ARITA Code categories, the amount of remuneration and expenses as administrators and liquidators that the applicants applied to be paid from the funds for general funds management of all the funds (described as the "Category 2" claims) was as follows:

Category	Total Hours	Amount (net of GST)
<b>Assets</b>		
For the period 19 March, 2013 to 30 June, 2013		\$5,747.50
For the period 1 July, 2013 to 31 July, 2013		\$2,344.00
For the period 1 August, 2013 to 31 August, 2013		\$3,540.50
For the period 1 September, 2013 to 30 September, 2013		\$1,617.50
For the period 1 October, 2013 to 31 October, 2013		\$954.50
For the period 1 November, 2013 to 30 November, 2013		\$1,732.50
For the period 1 December, 2013 to 31 December, 2013		\$271.00
For the period 1 January, 2014 to 31 March, 2014		\$10,571.00
For the period 1 April, 2014 to 30 June, 2014		\$10,748.50
For the period 1 July, 2014 to 30 September, 2014		\$1,348.00
For the period 1 October, 2014 to 31 December, 2014		\$3,363.00
For the period 1 January, 2015 to 30 June, 2015		\$1,490.00
For the period 1 July, 2015 to 30 September, 2015		\$771.00
<b>SUBTOTAL</b>		<b>\$44,499.00</b>
<b>Creditors</b>		
For the period 19 March, 2013 to 30 June, 2013		\$9,050.00

<sup>39</sup> Mr Park's first affidavit, Ex JRP-1, pp 682-701.

For the period 1 July, 2013 to 31 July, 2013	\$3,013.00
For the period 1 August, 2013 to 31 August, 2013	\$2,066.50
For the period 1 September, 2013 to 30 September, 2013	\$898.00
For the period 1 October, 2013 to 31 October, 2013	\$650.00
For the period 1 November, 2013 to 30 November, 2013	\$1,252.00
For the period 1 December, 2013 to 31 December, 2013	\$1,123.50
For the period 1 January, 2014 to 31 March, 2014	\$5,001.00
For the period 1 April, 2014 to 30 June, 2014	\$5,634.00
For the period 1 July, 2014 to 30 September, 2014	\$2,097.00
For the period 1 October, 2014 to 31 December, 2014	\$1,539.00
For the period 1 January, 2015 to 30 June, 2015	\$3,462.00
For the period 1 July, 2015 to 30 September, 2015	\$0.00
<b>SUBTOTAL</b>	<b>\$35,786.00</b>
<b>Employees</b>	
For the period 19 March, 2013 to 30 June, 2013	\$16,856.00
For the period 1 July, 2013 to 31 July, 2013	\$1,046.00
For the period 1 August, 2013 to 31 August, 2013	\$3,215.00
For the period 1 September, 2013 to 30 September, 2013	\$2,880.50
For the period 1 October, 2013 to 31 October, 2013	\$1,193.50
For the period 1 November, 2013 to 30 November, 2013	\$0.00
For the period 1 December, 2013 to 31 December, 2013	\$365.50
For the period 1 January, 2014 to 31 March, 2014	\$1,115.00
For the period 1 April, 2014 to 30 June, 2014	\$0.00
For the period 1 July, 2014 to 30 September, 2014	\$0.00
For the period 1 October, 2014 to 31 December, 2014	\$0.00
For the period 1 January, 2015 to 30 June, 2015	\$0.00
For the period 1 July, 2015 to 30 September, 2015	\$0.00
<b>SUBTOTAL</b>	<b>\$26,671.50</b>
<b>Trade on</b>	
For the period 19 March, 2013 to 30 June, 2013	\$216,228.00
For the period 1 July, 2013 to 31 July, 2013	\$32,295.50
For the period 1 August, 2013 to 31 August, 2013	\$53,148.00
For the period 1 September, 2013 to 30 September, 2013	\$12,894.50
For the period 1 October, 2013 to 31 October, 2013	\$12,904.50
For the period 1 November, 2013 to 30 November, 2013	\$8,782.00
For the period 1 December, 2013 to 31 December, 2013	\$4,567.50
For the period 1 January, 2014 to 31 March, 2014	\$27,331.50
For the period 1 April, 2014 to 30 June, 2014	\$9,102.00
For the period 1 July, 2014 to 30 September, 2014	\$7,049.00
For the period 1 October, 2014 to 31 December, 2014	\$9,191.00
For the period 1 January, 2015 to 30 June, 2015	\$26,520.00
For the period 1 July, 2015 to 30 September, 2015	\$22,277.00
<b>SUBTOTAL</b>	<b>\$442,290.50</b>
<b>Investigations</b>	



For the period 19 March, 2013 to 30 June, 2013	\$15,233.50
For the period 1 July, 2013 to 31 July, 2013	\$1,218.00
For the period 1 August, 2013 to 31 August, 2013	\$0.00
For the period 1 September, 2013 to 30 September, 2013	\$5,141.00
For the period 1 October, 2013 to 31 October, 2013	\$1,358.00
For the period 1 November, 2013 to 30 November, 2013	\$2,376.50
For the period 1 December, 2013 to 31 December, 2013	\$436.50
For the period 1 January, 2014 to 31 March, 2014	\$3,143.00
For the period 1 April, 2014 to 30 June, 2014	\$469.00
For the period 1 July, 2014 to 30 September, 2014	\$4,341.00
For the period 1 October, 2014 to 31 December, 2014	\$1,993.00
For the period 1 January, 2015 to 30 June, 2015	\$732.00
For the period 1 July, 2015 to 30 September, 2015	\$362.00
<b>SUBTOTAL</b>	<b>\$36,803.50</b>
<b>Administration</b>	
For the period 19 March, 2013 to 30 June, 2013	\$406,429.49
For the period 1 July, 2013 to 31 July, 2013	\$47,444.00
For the period 1 August, 2013 to 31 August, 2013	\$56,201.00
For the period 1 September, 2013 to 30 September, 2013	\$52,198.00
For the period 1 October, 2013 to 31 October, 2013	\$28,908.00
For the period 1 November, 2013 to 30 November, 2013	\$15,793.50
For the period 1 December, 2013 to 31 December, 2013	\$9,546.00
For the period 1 January, 2014 to 31 March, 2014	\$22,230.00
For the period 1 April, 2014 to 30 June, 2014	\$38,896.50
For the period 1 July, 2014 to 30 September, 2014	\$35,773.00
For the period 1 October, 2014 to 31 December, 2014	\$24,061.50
For the period 1 January, 2015 to 30 June, 2015	\$64,481.50
For the period 1 July, 2015 to 30 September, 2015	\$20,480.00
<b>SUBTOTAL</b>	<b>\$822,442.49</b>
<b>TOTAL</b>	<b>\$1,408,492.99</b>

- [137] However, by the Draft Order the applicants claim the total amount of \$1,603,532.99 for Category 2 remuneration and expenses over the relevant period, as set out below.
- [138] The amounts claimed by the Draft Order as Category 2 remuneration and expenses for the period of the first applicants' appointment as administrators up to 31 July 2013 total \$952,094.99, allocated to the relevant funds in accordance with the applicants' submissions as follows:
- (a) FMIF - \$785,315.68;
  - (b) AIF - \$133,046.69;
  - (c) CPF - \$1,663.79;
  - (d) ASPF - \$32,068.83.
- [139] These amounts include the expense item described and dealt with below as the LMA Remuneration.

[140] Similarly, the amounts claimed by the Draft Order as Category 2 remuneration and expenses for the period of the first applicants' appointment as liquidators from 1 August 2013 to 30 September 2015 total \$651,438.00, allocated to the relevant funds in accordance with the applicants' submissions as follows:

- (a) FMIF - \$481,479.09;
- (b) AIF - \$137,212.71;
- (c) CPF - \$1,527.76;
- (d) ASPF - \$31,218.44.

#### **LMA remuneration**

[141] Paragraph 4 of the Draft Order for Category 2 remuneration and expenses for the period of the first applicants' appointment as administrators up to 31 July 2013, includes the sum of \$401,468.78 (\$473,712.50 less \$72,243.72 as an allocation to the MPF that is not within this application). It is for services supplied to LMA by the first applicants as administrators of LMA between 19 March 2013 and 31 July 2013. It does not relate to work performed by the administrators or liquidators or their staff directly for LMIM. I will call it "LMA Remuneration".

#### **Expenses that are not remuneration**

- [142] The application and the Draft Order request orders in relation to "remuneration and expenses" in a number of different paragraphs. The majority of the amounts claimed are for remuneration as administrators or liquidators of LMIM. Unfortunately, the expenses are not clearly distinguished from the remuneration in the application or the Draft Order. It is appropriate to identify them in three groups as follows.
- [143] The first group of expenses is that part of the Category 2 claim that is for the LMA Remuneration. As previously mentioned, the final amount claimed is \$401,468.78.
- [144] The second group of expenses is part of the Category 1 claim for the FMIF. In Mr Park's first affidavit, at par 89, he refers to expenses of the first applicants that were incidental to the work done for the remuneration the subject of the Category 1 claim for the FMIF as listed in a schedule.<sup>40</sup> The amount claimed is \$35,919.18.
- [145] The third group of expenses appears in a number of the schedules breaking down the Category 1 and Category 2 claims. It is called or identified as "OOPE", an abbreviation for out of pocket expenses. With some other adjustments, it explains the difference between the amounts claimed for remuneration in the tables set out above and the evidentiary schedules supporting the Category 1 and Category 2 claims. A reconciliation between the amounts claimed in the application and the draft order on the one hand and the evidence in those schedules on the other hand was exhibited to Mr Park's fourth affidavit.<sup>41</sup>
- [146] There is an existing regime in the winding up of the FMIF to deal with creditors' claims for which LMIM seeks indemnity from the FMIF as expenses.<sup>42</sup> The amounts for these three categories of expenses could have been included in that regime, but were not.

<sup>40</sup> Mr Park's first affidavit, Ex JRP-1, pp 679-681.

<sup>41</sup> Mr Park's fourth affidavit, Ex JRP-4, pp 9-10.

<sup>42</sup> Paras [228]-[229].

- [147] I consider the amount claimed for LMA Remuneration later in these reasons.
- [148] As to the second group of expenses, having regard to the entries in the schedule exhibited to Mr Park's first affidavit,<sup>43</sup> it seems unlikely that those amounts will be contentious, in any event. They are for minor travel and accommodation expenses, telephone, printing and other sundry items.
- [149] As to the third group of expenses, although numerous amounts are identified as being for out of pocket expenses, no other information is provided as to what those amounts were for.
- [150] It is enough for present purposes to note that these three groups of expenses were the only claims for expenses identified in the evidence as included in the amounts claimed for payment, either by the application or the draft order. Otherwise, the claims made in the application were for remuneration of the administrators and liquidators.
- [151] All the amounts of remuneration sought to be recovered have been calculated without the inclusion of GST. As well, the amounts of out of pocket expenses for reimbursement have been included in the total amount of indemnity sought by various paragraphs of the application, as an amount "(plus GST)". The basis may be that the reimbursement of the out of pocket expense itself forms part of a taxable supply. No question was raised as to this method of calculation.

#### **Reasonableness of remuneration**

- [152] Subject to what follows, and what appears below, it is unnecessary to explore some of the detail of the evidence in the present case beyond the facts summarised above. The first applicants have proved that the work for which they claim remuneration was done and was recorded in accordance with well-established practices under a system of recording of time costing.
- [153] The identification of the subject matter of a particular time spent was also made in accordance with industry practices. That applies to the rates of charge and seniority of the relevant producers of work. The applicants' proof of those matters is not in dispute.
- [154] However, Mr Whyte does challenge whether that proof establishes that the remuneration claimed is reasonable. He argues that by failing to depose to the purpose and reasoning behind the actions carried out and the decisions made in the administration and the liquidation, the applicants have not established their case for determination and payment of remuneration in the amounts claimed from the trust property of the FMIF.
- [155] There is an overlap about these submissions as between the remuneration of the first applicants as administrators and their remuneration as liquidators. In part, this was because the evidence of the work done and the charge out rates encompassed the period as administrators between 19 March 2013 and 31 July 2013 as well as the period as liquidators between 1 August 2013 and 30 September 2015. However, it must be kept in mind that the applicants do not seek an order for determination of their remuneration as administrators.

---

<sup>43</sup> Mr Park's first affidavit, Ex JRP-1, pp 679-681.

- [156] Mr Whyte's challenge on this point is the same objection in substance as was taken in *Macks & Anor v Maka & Anor*.<sup>44</sup> Although a number of different submissions are made, in summary Mr Whyte challenges the sufficiency of the evidence of the correlation between the evidence of what was done and the necessary tasks to be performed as administrators or liquidators in relation to work said to have been performed for the FMIF or the funds generally. A separate submission was made as to the proportionality of the amount of remuneration claimed. Yet another submission was made generally questioning the necessity for work carried out after the appointment of the DB Receivers on 11 July 2013 or after Mr Whyte's appointment on 8 August 2013.
- [157] It is not unusual for an opponent to assert that the evidence of a liquidator does not sufficiently correlate the work which is proved to have been done with that which was reasonable for the purposes of a claim for remuneration. Thus Mr Whyte relied on *ASIC v Groundhog Developments Pty Ltd & Ors*,<sup>45</sup> *Thackray v Gunns Plantations*<sup>46</sup> and *Templeton v ASIC*.<sup>47</sup>
- [158] Reference might have been made also to *Macks & Anor v Maka*,<sup>48</sup> and *Re Traditional Values Management Ltd (in liq) (No 2)*.<sup>49</sup> As Gardiner AsJ said in the last case:
- “There is no absolute rule regarding the amount of detail required to support such a claim but it should enable potential objectors to review the amounts claimed and to ascertain whether there are matters to which objection should be taken. If a prima facie case is established, the application should provide for an objection procedure to enable objections to be made. If there are objectors, the court should then establish the validity of those objections.”<sup>50</sup>
- [159] Mr Whyte submits that if I form the view that there is insufficient detail on this point, the order that should be made is either to dismiss the application or to adjourn it to enable further affidavit material to be filed.<sup>51</sup>
- [160] Both parties accept that the determination of remuneration does not require a line by line analysis of the kind that sometimes occurs in the assessment of legal costs.<sup>52</sup> It is also common ground that the application falls to be determined by a summary procedure in which the rules of evidence are not strictly observed.<sup>53</sup>
- [161] The leading recent case on remuneration (decided after the argument in the present case) is *Sanderson as liquidator of Sakr Nominees Pty Ltd (in liq) v Sakr*.<sup>54</sup> The NSW Court of Appeal, constituted by a bench of five Judges, heard a liquidator's

<sup>44</sup> [2015] SASC 200, [12].

<sup>45</sup> [2011] QSC 263, [14].

<sup>46</sup> (2011) 85 ACSR 144 [160].

<sup>47</sup> (2015) 108 ACSR 545, [30]-[34].

<sup>48</sup> (2015) SASC 200, [12]-[16].

<sup>49</sup> [2015] VSC 126.

<sup>50</sup> [2015] VSC 126, [18].

<sup>51</sup> *Venetian Nominees Pty Ltd v Conlan* (1998) 20 WAR 96, 103.

<sup>52</sup> *ASIC v Atlantic Three Financial (Austin) Pty Ltd* [2004] QSC 133, [16]; *Re Conlan (as liquidator of Oakley Acquisitions Pty Ltd)* [2001] WASC 230, [24]-[27].

<sup>53</sup> *Venetian Nominees Pty Ltd v Conlan* (1998) 20 WAR 96, 102.

<sup>54</sup> (2017) 93 NSWLR 459.

appeal from a decision where the primary Judge had reduced the liquidator's remuneration calculated on time-based charging, on the ground of proportionality, to a much lesser "ad valorem" amount.

- [162] The court held that in fixing a liquidator's remuneration the critical question is the determination of a reasonable remuneration having regard to the factors identified (in that case) under s 473(10) of the CA.<sup>55</sup> In doing so, the court may fix remuneration on the basis of any method of calculation and, depending on the work done, a time-based calculation may or may not be appropriate.<sup>56</sup> In determining reasonableness, the court should consider whether the work done is proportionate to the size of the insolvent estate, the benefit to be obtained from the work and the difficulty and importance of the tasks.<sup>57</sup> Importantly, that work does not augment the funds available for distribution does not mean that a liquidator is not entitled to remuneration for it.<sup>58</sup>
- [163] As appears from the summary I have set out previously, the extent of the description and necessity of the task performed in the course of the administration and the liquidation is brief. Nevertheless, in determining remuneration it is not the function of the court to hypercritically assess the day by day activities or tasks carried out in the course of a complex administration over a lengthy period of time with the benefit of hindsight. In this context, it is sometimes remarked that the remuneration available to insolvency practitioners should be sufficient to encourage them to carry out the important public function of the administration of insolvent entities for the benefit of the creditors, investors (whether company members or fund members) and the public administration of the insolvency laws in general.
- [164] As well, the preparation of detailed affidavit material setting out extensive support for the correlation of individual or groups of line items and charges to particular tasks and functions of sufficient utility to be classed as reasonable remuneration is itself a time consuming and expensive exercise. In the usual course, those costs must be added to the costs of the application for remuneration to be paid to the relevant administrators or liquidators.
- [165] The applicants submit that the determination of any particular dispute as to the question of reasonableness of the remuneration should be referred to a registrar or special referee.
- [166] As to the appointment of a special referee, UCPR 501(1) provides that the court may refer a question of fact to a special referee to decide the question or to give written opinion on the question to the court. That rule used to be supported by the positive statutory provisions conferring powers on the court to appoint a special referee under the *Supreme Court Act 1995* (Qld) ss 255 and 256. However, those sections were repealed by the *Civil Proceedings Act 2011* (Qld). The present rule is supported by the rule making power in s 85(1)(a) and item 14 of Schedule 1 of the *Supreme Court of Queensland Act 1991* (Qld).

<sup>55</sup> (2017) 93 NSWLR 459, 470 [51].

<sup>56</sup> (2017) 93 NSWLR 459, 470 [51].

<sup>57</sup> (2017) 93 NSWLR 459, 470-471 [55]-[56].

<sup>58</sup> (2017) 93 NSWLR 459, 471 [57].

- [167] The nature of a proceeding before a special referee is often akin to that of a trial before a judge sitting alone, unless the court otherwise orders.<sup>59</sup> The alternative is to make an order for an inquiry to enable the special referee to decide the question or to give an opinion.<sup>60</sup> The specific concern I have in the present case is that if any disputed questions were referred to a special referee there would be the additional costs of the proceeding before the special referee and the costs of the special referee to be borne.
- [168] As to a registrar, Sch 1A to the *Uniform Civil Procedure Rules 1999* (Qld) (“UCPR”) known as the *Corporations Proceedings Rules*, r 16.1(1) provides that a registrar may exercise power of the court under a provision of the *Corporations Act 2001* or the rules mentioned in Sch 1B to the *Corporations Proceedings Rules*. Schedule 1B specifically refers to the power to fix the remuneration of an administrator under s 449E of the *Corporations Act 2001* and to determine a liquidator’s remuneration under s 473(3).
- [169] The definition of “registrar” in Sch 4 of the UCPR relevantly defines that term when used within schedules 1 to 3 to mean an assessing registrar within the meaning of r 679 or a cost assessor appointed under r 743L or otherwise includes a deputy registrar of the court. The court staff no longer include registrars or deputy registrars who regularly carry out cost assessing functions comparable to the determination of the remuneration in question in the present case. In those circumstances, an order referring the matter to a registrar does not present as an apt process to resolve any matters remaining in dispute as to reasonable remuneration. It seems to me that for those reasons the applicant’s proposal of a referral to a registrar or special referee has drawbacks that should be avoided, if possible.
- [170] I have given consideration to whether the court should or could proceed by some form of summary alternative for particular disputes. For example, the court might require the attendance of Mr Park on the part of the applicants, together with sufficient of his senior staff who may be able to provide relevant information to him for the purposes of examination upon any question or subject matter of inquiry that Mr Whyte wishes to raise. Bearing in mind that all of those involved in such an informal process would be expert accountants and the principal actors would be official liquidators of the court, conscious of their duties as officers of the court, it might be possible to proceed relatively informally and expeditiously to reach particular conclusions on any subject matters of concern.
- [171] However, there are drawbacks of such an informal procedure as well. First, from Mr Park’s point of view, he would not have advance notice of the subject matter of interest or questions that might be raised with him. That might operate unfairly. Possibly more importantly, it might result in him and those who can assist him in court being unable to provide useful answers straight away.
- [172] On the other hand, an underlying theme of Mr Whyte’s complaints or questions as to the remuneration sought on this application is the absence of sufficient material to correlate the relevant purposes, aims, strategies and functions in the administration and liquidation on the one hand and the tasks performed as described in the applicants’ schedules of information on the other hand.

<sup>59</sup> *Uniform Civil Procedure Rules 1999* (Qld), r 502(3).

<sup>60</sup> *Uniform Civil Procedure Rules 1999* (Qld), r 502(1).

- [173] For those reasons, I considered whether in circumstances like this case the interests of justice would be served best by a two-stage process. The first stage would be that having regard to the cases mentioned and the reasons I have set out above, the applicants provide affidavits as they may be advised upon the question of particular disputes as to the reasonableness of the remuneration they claim. After that affidavit or those affidavits are filed and served, the objector should identify the particular areas of remaining concern, if any, by reason of which he or she seeks to challenge the applicants' prima facie right to have the amounts of remuneration claimed determined.
- [174] After that, the hearing of a contested application could proceed using the informal process I have outlined. This method may hark back to the proceedings in chambers in the days when the court in its equitable jurisdiction examined and passed the claims of receivers and others analogous to the administrator and liquidator. But it is not necessary to delve in detail to the processes of yesteryear. What should be fashioned is a practical and summary method for resolving any factual dispute that remains in the context of the applicants' claims for determination of their remuneration.
- [175] I will return to whether orders of that kind should be made in this case. As the hearing progressed, the parties followed a path where to some extent the issues were so defined, although there was no request to cross-examine any of the deponents whose affidavits were read on the hearing of the application.

#### **Categories 1 and 2 - remuneration and the constitution**

- [176] As previously stated, the applicants do not present the claims for remuneration or expenses as claims made under the constitution of the FMIF. Clauses 18.4 and 18.5 of the constitution, as previously set out, provide for remuneration and expenses.
- [177] Mr Park gave an explanation why the first applicants did not proceed that way. He said that, under the Constitution of each fund, the relevant entitlement to a management fee, is a percentage, inclusive of GST, of the Net Fund Value<sup>61</sup> on a per annum basis, as follows:
- (a) FMIF - 5.5 per cent;
  - (b) AIF - 5.5 per cent;
  - (c) ASPF - 1.1 per cent;
  - (d) CPF - 2.2 per cent;
  - (e) CP-AIF - 3.3 per cent; and
  - (f) ICP-AIF - 5.5 per cent.
- [178] If remuneration were sought on a funds under management basis, based on those percentages, the amounts for remuneration would have been very considerable. Mr Park said that the management fee for the funds for the financial year ended 30 June, 2015 could have been "in the order of" the following amounts:

<sup>61</sup> "Net Fund Value" is defined in the constitution to mean the value of the Scheme Property less the Liabilities at the relevant time. "Scheme Property" is defined to include the assets of the scheme, including contributions, money borrowed by the RE for the purposes of the scheme, property acquired with contributions or borrowed money and income or property derived therefrom. "Liabilities" are defined to include the liabilities of the RE in respect of the scheme, excluding amounts owing from the scheme to members for their interest in the scheme property.

- (a) FMIF - \$4,066,482.70;
- (b) AIF - \$1,669,389.19; and
- (c) ASPF - \$86,060.84.

- [179] I don't understand the logic of what this calculation may have been intended to show. First, the constitutional management fee percentages were not of funds under management but Net Fund Value, so the fund's Liabilities would have had to be deducted from the gross amount of funds under management before the constitutional percentage would have applied.
- [180] Second, from the appointment of the first applicants as administrators, the funds were operating in an impaired way. New contributions were not being taken. With a few exceptions, distributions were not being made. The loans and securities representing the Scheme Property of the funds or the underlying assets of the Scheme Property of the funds were mostly distressed or in default. Accordingly, it was not a case of "business as usual" for LMIM as responsible entity.
- [181] Third, in any event, from 8 August and 21 August 2013, Mr Whyte was appointed as the receiver of the property of the FMIF. Mr Whyte was thereby charged with the functions of taking possession of and realising the property of the FMIF as part of his appointment as the person to take responsibility to ensure that the FMIF is wound up in accordance with its constitution and the orders. LMIM was no longer responsible for those functions. In my view it would have been wholly inappropriate for LMIM to have charged management fees for winding up the FMIF under the constitutional provisions for payment of management fees as if LMIM were continuing to manage all of the Scheme Property of the FMIF.
- [182] Mr Whyte submits that any claim for remuneration should be made as a claim by LMIM for fees as responsible entity under the constitutional provisions. In my view, that submission should be rejected, given the matters I have already mentioned. The submission appears to have been related to his further submission based on the clear accounts rule considered below, namely that LMIM is not entitled to payment or indemnity for remuneration or management fees or expenses because of claims that Mr Whyte as receiver has or would have on behalf of the FMIF against LIMIM for breach of duty as responsible entity or breach of trust. Mr Whyte did not submit or tender evidence to show that the amount of fees charged under the constitution would have been less than the amounts of remuneration and expenses claimed.
- [183] However that may be, the first applicants' claims for remuneration are not made under the constitutions of the funds. They are predicated on a right to direct payment from the trust property of the FMIF and other funds on the principles of the cases previously discussed. There is no basis of which I am aware for concluding that any right they may have to direct payment from the trust property of the funds is to be disallowed because LMIM might have, but has not, made a claim for management fees in the course of the administration of the FMIF, including during the winding up of that fund.



- [184] I do not accept that the first applicants' claims should be rejected because of the possibility that LMIM might have made a claim for management fees or expenses under the constitutions.
- [185] It was not suggested otherwise by Mr Whyte that the method of assessing the remuneration payable to LMIM as responsible entity or the first applicants as administrators or liquidators should not be based on the work that they carried out having regard to the time spent on the work and appropriate time based rates of charge for the work producers who carried out the work.

#### **First applicants and the clear accounts rule**

- [186] In *RWG Management Ltd v Commissioner for Corporate Affairs*,<sup>62</sup> Brooking J identified a series of inter-related principles relating to a trustee's right of indemnity for expenses. First, a trustee has a right to an indemnity for expenses, limited to the expenses properly incurred. Second, where a trustee's conduct in relation to incurring the expense is in breach of duty any liability thereby incurred is usually not properly incurred. Third, however, a trustee may have a right to an indemnity for a liability not properly incurred that benefits the trust estate. Fourth, there is no absolute rule that a trustee in breach of duty may not recover an indemnity for other expenses properly incurred. Fifth, where a trustee's entitlement to an indemnity for a liability properly incurred is subject to a counter-liability for its breach of trust, a balance is to be ascertained on the cross-liabilities and the trustee is entitled to payment of any balance in its favour.
- [187] The balancing exercise described by Brooking J in *RWG Management* was interpreted by Gordon J in *Australian Securities and Investment Commission (ASIC) v Letten (No 17)*<sup>63</sup> to require that the trustee in breach make good any loss caused to the estate as a condition precedent to payment upon the right of indemnity, which her Honour described as the clear accounts rule. An important point made by Gordon J is that a trustee's right to indemnity may be diminished by breaches unrelated to the liabilities for which the right of indemnity is claimed.<sup>64</sup> However, the balance Brooking J referred to is arrived at by the application of the counter-liabilities to the right to payment of the indemnity. If the balance favours the trustee in breach of duty there is not some other condition precedent that the trustee make good the loss.
- [188] By claim BS12317/14 Mr Whyte as receiver of the property of the FMIF claims damages or compensation against, inter alia, LMIM for LMIM's liability as a person involved in contraventions of the CA by its directors agreeing to the release of sums realised on the sale of mortgaged property. The claim is for compensation or damages of \$15,546,147. Mr Whyte alleges that LMIM as agent for the mortgagee PTAL on behalf of the FMIF had an entitlement to all of the proceeds of the sale, after giving credit for the expenses of the proceeding and sale which yielded the proceeds.

<sup>62</sup> [1985] VR 385.

<sup>63</sup> (2011) 286 ALR 346, 351-352 [14]-[19].

<sup>64</sup> (2011) 286 ALR 346, 353 [20].

[189] On 17 February 2016, Mr Whyte (by his solicitors) wrote to the applicants about a number of potential claims that as receiver of the FMIF he might have against LMIM.<sup>65</sup> The subject matters raised were:

- (a) loan management fees and costs paid by LMIM to LMA under the Loan Management Agreements. The periods and amounts identified were as follows:

Period	Amount
Year ended 30 June 2011	\$5,381,516
Year ended 30 June 2012	\$4,817,414
1 July 2012 to 28 Feb 2102	\$2,304,635.68
From 1 Mar 2013	\$928,483.39

- (b) payments to LMIM as responsible entity of the Feeder Funds as class B unitholders of the FMIF while redemptions and distributions to class A unitholders of the FMIF were suspended as follows:

Period	Amount
Year ended 30 June 2010	\$23,212,460
Year ended 30 June 2011	\$23,610,149
Year ended 30 June 2012	\$4,497,306

- (c) pre-payment by LMIM to LMA of fees under the First Services Agreement (and perhaps the Second Services Agreement as well), but no amount was identified as relating to the period of the appointment of the first applicants.

[190] So far as LMIM is concerned, these subject matters might have been raised as counter-liabilities for breach of trust that would resolve in a balance that no amount remains payable to LMIM for remuneration or fees or expenses. However, the application proceeded without any extensive submissions on that question. The first applicants sought to avoid any balancing of that kind by relying on their rights as administrators and liquidators of LMIM to direct payment for their remuneration from the property of the FMIF. Their position was, in effect, that it is unnecessary to determine whether the clear accounts rule would operate as an answer to LMIM's application for orders for payment from the property of the FMIF because the clear accounts rule does not operate as an answer to their right to direct payment for remuneration and expenses.

[191] On the hearing of this application, Mr Whyte relied on the clear accounts rule as an answer to the whole of LMIM's claims for indemnity by reason of counter-liabilities of LMIM.

[192] In this application, Mr Whyte did not generally seek to pursue the claims made or foreshadowed against LMIM to demonstrate that they were amounts to be brought into a balance of any amounts otherwise payable to the first applicants on their direct payment claims under the clear accounts rule. These are not matters that have only recently come to light. Mr Whyte had raised questions as to the extent of the payments by LMIM to LMA in his early reports to creditors following his

<sup>65</sup> Mr Whyte's First affidavit, Ex DW-11.

appointment on the basis that he was then investigating those matters. Nevertheless, it is not necessary to further consider the application of the clear accounts rule to LMIM, because the first applicants submit that it does not apply to their claims for orders for direct payment from the property of the funds to them.

- [193] As to the first applicants, Mr Whyte relied on the clear accounts rule only in a limited way, namely that the first applicants' entitlement, if any, to direct payment from the trust property of the FMIF should be subject to any counter-liabilities that arose for alleged breaches of duty by the first applicants after their appointment as administrators.
- [194] Beyond that, Mr Whyte accepted that any application of the clear accounts rule in respect of the first applicants' claims to direct payment from the property of the funds would not extend to breaches of duty or trust by LMIM prior to their appointment.
- [195] However, Mr Whyte has not made an express allegation that the first applicants are subject to any particular counter-liability for alleged breaches of duty by the first applicants after their appointment as administrators.
- [196] In my view, it is not appropriate or equitable, in those circumstances, to hold that any entitlement that the first applicants would otherwise have for remuneration or expenses by way of direct payment or indemnity from the property of the FMIF should be further delayed by a possibility of a counter-liability of a relevant kind.

#### **Categories 1 and 2 - remuneration not included in the application**

- [197] The period of the applicants' claims covers four different periods of insolvency administration, as far as the FMIF is concerned. First, from 19 March 2013, the first applicants were appointed administrators of LMIM. Second, from 11 July 2013 the DB Receivers were appointed receivers and managers of the property of the FMIF while the first applicants' appointment as administrators continued. Third, on 1 August 2013, the first applicants' appointment as administrators ceased and they were appointed liquidators of LMIM while the appointment of the DB Receivers continued. Fourth, on 8 and 21 August 2013, LMIM was directed by order to wind up the funds, subject to other orders. Mr Whyte was ordered to take responsibility for ensuring that the FMIF is wound up and appointed as receiver of the property of the FMIF for that purpose. The first applicants' appointment as liquidators of LMIM continued as did the appointment of the DB Receivers.
- [198] The first point of significance from that sequence of events is that since 8 August and 21 August 2013, three sets of insolvency practitioners have been involved in the realisation of or winding up of the FMIF and have been remunerated or sought remuneration for their work.
- [199] A second point of significance that emerges from the affidavit evidence is that although the amount of remuneration sought by the first applicants upon this application by the Draft Order for the period between 19 March 2013 and 30 September 2015 is for a sum in total in excess of \$4.2 million, it does not represent all of the amounts payable to the first applicants for remuneration for work in connection with the FMIF during the relevant period.

- [200] Mr Parks said in his first affidavit that his staff recorded time into three categories. Category 1 and Category 2 have been mentioned previously. Category 3 was for work that related only to the controllerships of loans and securities in the FMIF recorded to specific loan book sub-task time codes, which he said were paid from the property of the FMIF as a contractual entitlement of LMIM to its reasonable costs and expenses. I take that to mean that the DB Receivers authorised the payments where that was required. Mr Park says that he is confident that there has been no "double dipping" between the amounts of the Category 3 remuneration (which he did not identify) and the claims for Category 1 and Category 2 remuneration. That may be so. Although Mr Whyte sought a reconciliation of all amounts of remuneration claimed and paid, the applicants did not provide one. Even so, accepting there has been no double counting, the work carried out by the applicants for the controllership appointments has already been separately remunerated and the balance of the applicants claims for remuneration must be seen in that light.
- [201] In a CA Form 524 for the Presentation of Accounts and Statement of the first applicants dated 17 August 2015, the first applicants stated that the remuneration paid to them from the date of their appointment as liquidators on 1 August 2013 to 31 July 2015 was \$1,220,159.88.
- [202] My Park's second affidavit explained how the \$1,220,159.88 was made up. It consisted of payments made (inclusive of GST) for work done between 19 March 2013 and 31 July 2013 as follows:

<b>Fund and Remuneration Category</b>	<b>Amount</b>
AIF Category 1	\$121,854.00
CPF Category 1	\$4,320.25
FMIF Category 1	\$32,005.60
MPF Category 1	\$280,489.35
AIF and CPF Category 2	\$83,523.85
Category 3 FMIF	\$122,142.90
LMIM General Corporate (no category)	\$575,823.93
<b>Total</b>	<b>\$1,220,159.88</b>

- [203] Because no reconciliation is given in Mr Park's evidence for all amounts received for remuneration, it may be that there are other amounts of remuneration of the first applicants that are not included in the claims for remuneration in this application. In any event, there is a significant amount of remuneration that has been imposed on the assets of the FMIF or the other funds, in addition to the remuneration the subject of the present application, or that payable to Mr Whyte or the DB Receivers.
- [204] However, Mr Park adhered to his statement that there was no double counting over the remuneration in Categories 1, 2 and 3 and general corporate remuneration work. As to the latter, he said that it was not included in the remuneration claimed in the application. The remuneration in Category 2 is for work related to the funds generally, not to general corporate matters for LMIM.
- [205] I proceed on the footing that there should be no general reduction in the amounts claimed because the applicants have received payment for or have other claims for remuneration. That is subject to the specific items of Category 1 FMIF

remuneration -- Category 3 and the controllerships for the FMIF after 21 August 2013, referred to below.

**Category 1 FMIF - remuneration for July and August 2013 court hearings and September 2013 costs application**

- [206] Mr Whyte questions whether the first applicants should receive any remuneration for their work related to the applications heard in proceeding BS3383/13. On 15, 16 and 17 July 2013, a Judge heard contested applications over whether LMIM should be replaced as responsible entity of the FMIF by a temporary responsible entity, whether the FMIF should be wound up and whether Mr Whyte should be appointed as a person to take responsibility for ensuring the winding up of the FMIF, among other things ("FMIF winding up applications").
- [207] On 8 August 2103, the court gave reasons deciding the applications.<sup>66</sup> The final orders were made on 21 August 2013. Later, on 6 September 2013, the court heard argument on the question of costs. There were written submissions filed beforehand.
- [208] During that argument, Mr Shotten's lawyers provided a draft order to the court that the first applicants "shall not recover their professional costs or disbursements (including legal costs) of responding to the application...". As well, counsel for ASIC submitted that "whilst the court concludes that [the first applicants] weren't acting in the interests of the fund at all but in their own interests, they shouldn't be indemnified for any of their costs." That, too, appears to have been a reference to remuneration as opposed to legal costs only.
- [209] In the result, the first applicants offered an undertaking to the court not to claim some costs associated with calling a meeting of unitholders of the FMIF. As to the legal costs of the application, the court ordered that LMIM was to be indemnified only to the extent of 20 per cent of its costs of the proceeding. The court did not otherwise make an order that the first applicants should not recover any of their remuneration.<sup>67</sup> The basis of the order as to costs that was made was that LMIM should only be indemnified from the property of the FMIF to the extent that its legal costs were properly incurred, so that an order other than in accordance with r 700 of the *Uniform Civil Procedure Rules* (Qld) was made. The grounds included that the first applicants were acting in their own interests to keep control of the winding up and that most of the costs were incurred in the dispute as to whether another person should be appointed to take responsibility for ensuring the winding up of the FMIF. However, I note that the first applicants were not parties to the proceeding.
- [210] On the hearing of this application, Mr Whyte sought to re-agitate the first applicants' conduct of the proceedings in the FMIF winding up applications (although not of the subsequent appeal to the Court of Appeal)<sup>68</sup> as a ground for depriving them of an order for payment of their remuneration in connection with the applications from the property of the FMIF.
- [211] Surprisingly, however, neither of the parties sought to identify what the quantum of the relevant costs might have been with precision. Mr Whyte identified the amount

<sup>66</sup> *Re Bruce & Anor v LM Investment Management Limited & Ors* [2013] QSC 192.

<sup>67</sup> *Re Bruce & Anor v LM Investment Management Limited & Ors (No 2)* [2013] QSC 347.

<sup>68</sup> *LM Investment Management Limited (in liq) v Bruce & Ors* [2014] QCA 136.

of \$262,678 in the "Litigation" section of the Fee Summary Descriptions table from 19 March 2013 to 30 June 2014, which would include the first applicants' charges for work for both the hearings in question and the appeal from the orders of 8 August 2013 and 21 August 2013 to the Court of Appeal.

- [212] It would not be appropriate to simply allocate the same percentage of the legal costs (20 percent) as assessed by the court on the hearing of the proceeding before appeal. First, where the bulk of the legal costs were incurred and where the bulk of the remuneration claimed for the applications were incurred are not necessarily correlated. Second, the allocated percentage of the costs at first instance did not relate to the costs of the appeal and the appeal was unsuccessful.
- [213] Except by dividing the amounts claimed in the Litigation section of the Fee Summary Descriptions table before 6 September 2013 and those afterwards as representing the dividing line between the costs at first instance and those on appeal, there is no basis for separating out the remuneration claimed for work on the appeal.
- [214] The first applicants entered their time spent in connection with litigation into codes F1 to F9. Up to 8 August 2013, the total amount allocated to those codes was \$187,137.50. In my view, the applicants should only receive a proportion of that amount, having regard to the findings made by the court in deciding the application<sup>69</sup> and also having regard to the findings made in the Court of Appeal in dismissing the appeal.<sup>70</sup>
- [215] In my view, the first applicants should not obtain an order for payment from the FMIF of all of their remuneration associated with proceeding BS3383/13 before the court that resulted in the orders of 8 August 2013 and 21 August 2013. On the contrary, although the committee of creditors or the creditors may have approved some of those amounts for the purposes of s 449E of the CA up to 1 August 2013, the amount of that remuneration should not be ordered to be paid from the property of the FMIF if it was not properly incurred as a trust expense so as to come within the operation of the *Berkeley Applegate* principle.
- [216] Looking at the entries in the schedule of narratives does not really assist in seeking to distinguish time spent in LMIM's defence of Trilogy's application which was in the interest of the FMIF and time spent in LMIM's defence of ASIC and Mr Shotten's applications which were not in the interest of the FMIF, as the court found, so as to allocate the proportion of the amount of \$187,137.50 that was not improperly incurred.
- [217] In my view, the majority of the remuneration claimed for this work will have been properly incurred. Although LMIM unsuccessfully resisted the appointment of Mr Whyte as a person to take responsibility for ensuring that the FMIF is wound up in accordance with its constitution and the orders, it successfully resisted the appointment of another responsible entity. As a broad brush allocation, I conclude that the amount of \$187,137.50 should be reduced to \$120,000.00.
- [218] In my view, that amount, \$120,000.00 should be ordered to be paid to the first applicants from the property of the FMIF.

<sup>69</sup> *Re Bruce & anor v LM Investment Management Limited & ors* [2013] QSC 192; *Re Bruce & Anor v LM Investment Management Limited & Ors (No 2)* [2013] QSC 347.

<sup>70</sup> *LM Investment Management Limited (in liq) v Bruce & ors* [2014] QCA 136.

**Category 1 FMIF - remuneration otherwise up to 8 August 2013**

- [219] Apart from the question of remuneration related to the July and August 2013 court hearing, Mr Whyte has reviewed and does not challenge the reasonableness of the amount that the applicants claim for Category 1 FMIF remuneration up to the date of his appointment on 8 August 2013.
- [220] From the Fee Summary Description table, the total amount of the Category 1 FMIF remuneration claimed to 8 August 2013 is \$1,106,357.86. The total amount allocated into the litigation codes F1 to F9 up to 8 August 2013 was \$187,137.50. The difference is \$919,220.36.
- [221] In my view, that amount, \$919,220.36 should be ordered to be paid to the first applicants from the property of the FMIF.

**Category 1 FMIF - remuneration for appeal to the Court of Appeal heard in November 2013**

- [222] Additionally, the first applicants seek their remuneration for the work in connection with the appeal in CA8895/13 to the Court of Appeal from the orders of the court made on 8 August 2013 and 21 August 2103.
- [223] In the Expenses application, the first applicants made a submission that they should be paid their legal costs of the appeal as expenses properly incurred. It is not necessary to repeat the discussion of the relevant considerations upon that question in order to decide the cognate question in this application whether they should be entitled to recover their remuneration in connection with the appeal as properly incurred as a trust expense and as coming within the *Berkeley Applegate* principle.
- [224] The relevant work for the appeal largely took place between 8 August 2013 and 30 June 2014, although any time spent in relation to the question of costs on the orders made on 8 August 2013 and 21 August 2013 would have been incurred in early September or thereabouts. The total amount recorded against codes F1 to F9 between 8 August 2013 and 30 June 2014 is \$75,540.50.
- [225] In my view, the first applicants' remuneration in connection with the appeal should not be paid from the property of the FMIF.
- [226] Looking at the entries in the schedule of narratives assists in determining what amount in the Litigation codes of the Fee Summary Description table may have been incurred in connection with the appeal. The relevant looking entries between 7 August 2013 and 12 June 2014 total approximately \$33,000. I do not consider that it would be worthwhile to further identify the amounts.
- [227] In the result, in my view, the amount of the remuneration to which the first applicant might otherwise be entitled to payment from the FMIF should be reduced by the amount of \$33,000 as remuneration relating to the appeal that should not be ordered to be paid from the property of the FMIF. The difference between \$75,540.50 and \$33,000 is \$42,540.50. That amount should be ordered to be paid to the first applicants from the property of the FMIF.

**Category 1 FMIF - remuneration for the application for directions as to powers in July 2015**

- [228] On 20 July 2015, the applicants applied for directions as to the powers and responsibilities of the applicants and Mr Whyte in relation to the winding up of the FMIF. On 15 October 2015, the court decided the application and made orders requiring the applicants and Mr Whyte to reach agreement upon and to submit further orders relating to a regime for the ascertainment of the creditors of LMIM for whose debts LMIM may be entitled to indemnity from the property of the FMIF.<sup>71</sup>
- [229] On 17 December 2015, the court made an order by consent giving effect to the agreement reached for such a regime.
- [230] In the period between 30 June 2014 and 30 September 2015 the first applicants recorded the total amount of \$36,641.50 against codes F1 to F9.
- [231] In my view, all of that amount of \$36,641.50 should be allowed as remuneration and ordered to be paid from the property of the FMIF.

**Category 1 FMIF - Category 3 and the controllerships for the FMIF after 21 August 2013**

- [232] As previously discussed, the first applicants separately charged for what they called the controllerships under their Appointment of Agent agreements with PTAL for work allocated to Category 3 in their charging system. That separate work was separately remunerated and paid and is not claimed in this application.
- [233] However, a curious twist on this structure appeared in Mr Park's third affidavit. He said that in reviewing the Category 1 claims for the FMIF after 21 August 2013, an unstated amount of the work was for reviewing loan book documentation, preparing loan book strategy, reviewing and facilitating requests for payments out of the FMIF, liaising with PTAL in respect of issues relating to security and releases and liaising with McGrath Nicol and BDO staff in that regard, reflected in codes C2, C4 and C5 of the remuneration codes. The total amount shown against those codes in the Fee Summary Descriptions table after 8 August 2013 was \$125,767.
- [234] Mr Park continued that most of the work therein also relates to controllership time not specifically allocated to Category 3. He said that following legal advice he formed the view that the controllership appointment documents (presumably the Appointment of Agent agreements) required LMIM to exercise its judgment objectively and independently in discharging its functions as controller and "[f]or that reason it was appropriate for LMIM to maintain independent oversight of what was occurring in respect of loan book management".
- [235] In my view, this is not a persuasive explanation as to why the first applicants are entitled to remuneration as liquidators of LMIM as the responsible entity of the FMIF that should be ordered to be paid from the property of the FMIF. As at 8 August and 21 August 2013, Mr Whyte was appointed as the person to take responsibility for ensuring the FMIF was wound up in accordance with the constitution and the order, was appointed as the receiver of the property of the FMIF with the powers of a receiver to deal with the property of the FMIF. That property included the "loan book" meaning the debts payable to LMIM by

<sup>71</sup> *Park & Muller (liquidators of LM Investment Management Ltd (in liq)) v Whyte (receiver of the LM First Mortgage Investment Fund)* [2015] QSC 283.



- borrowers and the securities held by PTAL as custodian of the property of the FMIF, subject to the appointment of the DB Receivers.
- [236] If the first applicants were in doubt as to their responsibilities in relation to the management of the loan book, the proper course was to apply to the court for directions about the point. They did not do so.
- [237] None of the arrangements made under the orders appointing Mr Whyte could be interfered with by PTAL appointing LMIM under an Appointment of Agent agreement. If LMIM had responsibilities under the Appointment of Agent agreements, or the Loan Management Agreements, they were contractual obligations, but they gave no entitlement to “maintain independent oversight” over Mr Whyte’s performance of the functions conferred on him under the orders of the court, and in particular gave no entitlement for the first applicants to do so on the basis that their remuneration for carrying out that oversight was to be laid at the door of the FMIF.
- [238] It follows, in my view, that the first applicants are not entitled to an order that their remuneration for carrying out those tasks should be paid from the property of the FMIF. However, the parties addressed no particular submissions as to the relevant amount or amounts of the claimed Category 1 remuneration relating to the FMIF that would be affected.
- [239] A second, similar, question of concern emerged from Mr Park’s third affidavit. He said that some of the time entries for Category 1 claims for the FMIF related to dealing with controllership matters. The relevant codes were D1 to D7 in the Fee Summary Descriptions table. After 8 August 2013, the total amount posted against those codes was \$46,422.50.
- [240] LMIM did not cease acting as controller in all such matters until 24 September 2014. Mr Park said that where several controllerships were dealt with at once, such as a list of payments relating to several assets or borrowers, it would be inequitable to charge each controllership a unit of time, so it would be recorded as general Category 1 remuneration of the FMIF.
- [241] This, too, seems to me to be questionable. Mr Whyte was appointed receiver of the property of the FMIF subject to the DB Receivers’ appointment. That made it his responsibility to deal with the assets and borrowers. The applicants relied on the controllerships as giving them a continuing role, from the contractual relationship under the Appointment of Agent agreements and whatever authority may have been given to them by the DB Receivers. Hence, the Category 3 remuneration in performing those functions was rightly seen as outside the scope of this application. That authority did not extend to charging back to the FMIF as remuneration for managing the assets of the FMIF amounts claimed for carrying out these separate functions that were not properly allocated to the Category 3 tasks.
- [242] It follows, in my view, that the first applicants are also not entitled to an order that their remuneration of carrying out those tasks should be paid from the property of the FMIF. However, again the parties addressed no particular submissions as to the relevant amount or amounts of the claimed Category 1 remuneration relating to the FMIF that would be affected. It will be necessary for the parties to address this question further by filing further material and submissions.

**Category 1 FMIF – 8 August 2013 to 4 September 2013**

- [243] Mr Park's third affidavit further referred specifically to the Category 1 remuneration for the FMIF during two relevant periods. The first period was between 8 August 2013 and 21 August 2013, in the claimed amount of \$76,745.00, during which the final orders relating to Mr Whyte's appointment had not been made. The first applicants continued to carry out the functions of managing the property of the FMIF. Mr Park says that it was necessary for LMIM to continue the day to day operations of the FMIF during this period.
- [244] I proceed on the footing that the amount of Category 1 remuneration for the FMIF for this period should not be reduced on account of Mr Whyte's appointment.
- [245] The second relevant period was between 21 August 2013 and 4 September 2013, in the claimed amount of \$53,328.00. This period was the first two weeks of Mr Whyte's appointment following finalisation of the orders on 21 August 2013. It seems likely from the task descriptions that much of the remuneration claimed will have been for the tasks of dealing with Mr Whyte and his employees and the DB Receivers relating to the handover of possession and management of the property of the FMIF to Mr Whyte. Mr Park says that he and his staff were still required to perform work of direct relevance to the FMIF and which was reasonably necessary.
- [246] Again, I proceed on the footing that the amount of Category 1 Remuneration for this period should not be reduced on account of Mr Whyte's appointment.

**Category 2 – Basis of apportionment**

- [247] If it is determined that Category 2 remuneration and expenses are recoverable from the property of the funds, it is necessary to determine how the relevant amounts are to be allocated or apportioned among the funds.
- [248] Mr Park says in his first affidavit that, in his view, the fairest way to assess the differing interests of each fund in work undertaken which is applicable to all funds, is to calculate the ratios of the funds under management<sup>72</sup> of each of the following funds:
- (a) FMIF;
  - (b) AIF;
  - (c) CPF;
  - (d) ASPF; and
  - (e) MPF (for the period to 12 April 2013).
- [249] For the period 1 January 2015 onwards, Mr Park says that the CPF should be removed from the proposed funds under management allocation schedules due to the minimal assets remaining in that. For example, as at 31 December, 2015, the net assets of the CPF were valued at approximately \$44,908.69.
- [250] Mr Park says further that the Feeder Funds should be excluded from the proposed allocations, given that the only assets of the CP AIF and the ICP AIF are units in the FMIF. It is his view that excluding the Feeder Funds in any proposed allocation will avoid the unit holders of those funds bearing a disproportionate amount.

<sup>72</sup> *Owen v Madden (No 5)* [2013] FCA 1443, [38]-[40].

[251] The applicants submit that the possible methods of apportionment are:

- (a) method 1, being an equal split among all the funds and the MPF (until 12 April 2013);
- (b) method 2, being an equal split between the non-Feeder Fund funds and the MPF (until 12 April 2013);
- (c) method 3, being an equal split between the asset holding funds (being FMIF, AIF and the ASPF) and the MPF (until 12 April 2013); and
- (d) method 4, being a rateable distribution among the funds based on assets in the funds, with two alternative bases, being:
  - (i) gross realisations (less directly secured debt) as the best approximation of net asset values and for currently unrealised properties, estimating a realizable value for each based on such real property valuations that each Fund has commissioned over time as are now available (that is, without new valuations being required), with the assumption that the asset values do not change over time, calculated using the formula:
 

GROSS ASSET REALISATIONS TO 2 MARCH, 2016  
LESS  
PAYMENTS TO DIRECT SECURED CREDITORS (NAMELY  
DEUTSCHE BANK)  
PLUS  
ESTIMATED REALISABLE VALUE (of remaining assets)  
BASED ON ANY REAL PROPERTY VALUATION IF  
AVAILABLE, OR IF NOT, THEN THE  
LIQUIDATORS/RECEIVERS CURRENT BEST ESTIMATE
  - (ii) each fund's Net Fund Value (that is, LMIM's own book values) excluding FTI Consulting's fees as identified.

[252] The applicants' preference is method 4, basis (i).

[253] Mr Whyte submits that method 1 is the appropriate method supported by authority.<sup>73</sup> He opposes methods 2 and 3 as unprincipled. Method 2 would allocate the remuneration for the administration of the Feeder Funds to the non-Feeder Funds and method 3 assumes, in the absence of evidence, that the Category 2 work was largely confined to the major asset holding funds.

[254] If a rateable apportionment were to be made, he submits it should be on the net fund value rather than on a gross realisable value or funds under management basis. He submits that net fund value was the basis of the entitlement to remuneration under the funds' constitutions and that the applicants did not have the function of realising the FMIF's assets, from the commencement of the winding up of the FMIF. As well, from the appointment of the DB Receivers and the appointment of Mr Whyte the relative proportion to be allocated to the FMIF should be reduced to reflect the reduced role of the applicants in the winding up of the FMIF.

[255] In my view, there is substance in the proposition that the Feeder Funds should be excluded from the apportionment. There is no suggestion in the evidence that any substantial additional amount relates to the administration of those funds. As

<sup>73</sup> *13 Coromandel Place Pty Ltd v CL Custodians Pty Ltd (in liq)* (1999) 30 ACSR 377, 386; *Parbery v ACT Superannuation Management Pty Ltd* (2010) 79 ACSR 425, [37]ff.

members of the non-Feeder Funds, they bear a relevant proportion of the Category 2 expenses allocated to the non-Feeder Funds.

- [256] Second, in my view, the MPF should be excluded from the funds bearing the apportionment after 12 April 2013. After that date, the applicants had no business doing work for the MPF as remuneration.
- [257] Third, in my view, there is no sufficient basis to conclude that the Category 2 remuneration should be more heavily allocated to the FMIF based on the ratios calculated using method 1 or funds under management of the remaining funds. By definition, Category 2 work is not specific to the FMIF. No basis was put forward in the evidence to find that although it is not possible to ascertain that the work was done for one fund or another, the ratio of the values using method 1 or funds under management for the various funds reflects the relative value of the amounts of the undifferentiated work that was done for them. A risk is that some of the funds will not be able to bear their share and the first applicants may be out of pocket. In my view, that is not a reason to throw a higher proportion of the amount upon the FMIF.
- [258] It follows, in my view, that method 2 should be adopted, but excluding the MPF from 12 April 2013.

#### **Category 2 - LMA Remuneration**

- [259] It is necessary to identify clearly what amount is claimed in respect of the LMA Remuneration.
- [260] The calculation begins with two invoices from LMA to LMIM raised by LMA under administration by the first applicants, copies of which were tendered<sup>74</sup> ("LMA Remuneration Invoices") more particularly described as follows:

Number	Date	Description	Amount (ex GST)
8973Inv007	30 June 2013	Administrators remuneration for work undertaken in relation to... LMA as service entity to LMIM...[for] funds	\$403,873.50
8973Inv009	26 July 2013	[as for inv 8973Inv007]	\$69,839.00
<b>Total</b>			<b>\$473,712.50</b>

- [261] The manner in which those invoices were arrived at is not dealt with in detail in the evidence. There are, however, schedules of narratives in evidence of the work done by the first applicants' employees in support of the first applicants' claims for payment from the property of the FMIF for remuneration as administrators of LMA for the relevant periods.<sup>75</sup>
- [262] That evidence was reduced to a schedule<sup>76</sup> identifying the 17 employees whose time was charged in 8973Inv007, the employee's position, the total hours spent in the period and the rate of remuneration per hour claimed and corresponding to the total amount charged in 8973Inv007.

<sup>74</sup> Mr Park's first affidavit, Ex JRP-1, pp 834-835.

<sup>75</sup> Mr Park's first affidavit, Ex JRP-1, pp 934-987 and 988-1014.

<sup>76</sup> Mr Park's first affidavit. Ex JRP-1, p 832.

- [263] There was a similar schedule for inv 8973Inv009,<sup>77</sup> but the period of the schedule (and the underlying narratives) extended beyond the date of that invoice and so the total amounts do not correspond.
- [264] Paragraph 7(b) of the application as filed applies for payment to the applicants of \$952,095 for Category 2 remuneration in accordance with the allocation shown in the attached schedule 4. It is necessary to explain how that amount was arrived at. The total amount of the Category 2 claims for remuneration as set out above for the period from 19 March 2013 to 31 July was \$756,905. The sum of that amount and \$473,712.50 as the total amount of the LMA Remuneration Invoices, as set out above, is \$1,230,618. A spreadsheet exhibited to Mr Park's first affidavit showed that the LMA Remuneration Invoices were included in the calculation of that total amount.<sup>78</sup> The amount of \$952,095 was arrived at by deducting \$278,522 from \$1,230,618 as an allocation a proportion of the Category 2 amounts to the MPF.
- [265] However, by the Draft Order the applicants reduced the amount of their claim for LMA Remuneration from \$473,712.50 to \$401,568.78, by subtracting from \$473,812.50 (sic) the amount of \$72,243.72, as an allocation for the MPF.
- [266] At first blush, the inclusion of any of the first applicants' remuneration for services supplied to LMA as administrators of LMA in the present application seems counterintuitive. As previously described, LMA supplied services to LMIM during the first applicants' appointment as administrators of both companies under the Second Services Agreement. LMA was the employer of the staff who carried out many of the tasks to be performed by LMIM in managing the various funds.
- [267] The evidence about the relevant amounts is not clear. Mr Park in his second affidavit characterised both companies as professional trustees whose predominant purpose was to act as responsible entity and trustee. Surprisingly, that ignored the separate legal personalities of the two companies, their contractual relationships under the Second Services Agreement and the Loan Management Agreements and the fact that in liquidation they have different assets and liabilities and different rights and obligations.
- [268] Because LMA was not a responsible entity or trustee of any of the funds it had no entitlement to any indemnity for any of its expenses from the trust property, except possibly as a creditor of LMIM subrogated to a right of indemnity of LMIM as trustee of the relevant trust on the principle of *Octavo Investments Pty Ltd v Knight*.<sup>79</sup> Any debt in that respect would have been for the fees that were payable or paid under the Second Services Agreement between LMIM and LMA, or possibly for an amount payable under the Loan Management Agreements.
- [269] Mr Park says that before entering into the Second Services Agreement between LMIM and LMA the first applicants formed the view that it was essential for LMIM to retain the services of LMA as provided under the First Services Agreement, so that the business could continue. As well as obtaining continuity, he formed the view that the rates paid to staff of LMA were less expensive than would be the costs of FTI Consulting employees doing that work.

<sup>77</sup> Mr Park's first affidavit, Ex JRP-1, p 837.

<sup>78</sup> Mr Park's first affidavit, Ex JRP-1, p 592.

<sup>79</sup> (1979) 144 CLR 360.

- [270] All that may be so, but it is to be remembered that as between LMIM and LMA under both the First Services Agreement and the Second Services Agreement a commercial rate was to be paid, and the question of who should staff LMA was a question that arose in the LMA administration and liquidation, not LMIM's administration and liquidation, as such.
- [271] Mr Park says that the work undertaken in the administration of LMA was "claimed as remuneration in LMA", meaning (I assume) that the work was undertaken by the first applicants and the employees of FTI Consulting in that administration. He says further that the remuneration has been approved by the creditors in that administration. He then says that where tasks were undertaken by LMA for the ongoing services provided by LMA they were invoiced by LMA to LMIM "who is in turn seeking to recover these costs as part of its Category 2 claims from the various funds."
- [272] Mr Park said in his first affidavit that the relevant amounts were invoiced by LMA to LMIM pursuant to cl 4.2(b) of the Second Services Agreement. That clause provided for the calculation of the Resources Fee payable under cl 4.3. I can understand that LMA would have invoiced LMIM for services under the Second Services Agreement. I do not readily understand why LMA would have invoiced LMIM for the remuneration payable to the first applicants as administrators of LMA, unless that were provided for under the Second Services Agreement or some other agreement. It was not suggested that there was any such formal agreement. And it was not suggested either that remuneration of the first applicants as administrators of LMA is remuneration of the first applicants in the administration of LMIM.
- [273] In Mr Park's second affidavit, he appeared to say that he was mistaken in saying that the LMA Remuneration Invoices were payable as part of the Resources Fee under the Second Services Agreement. However, he did not otherwise identify any basis on which LMIM or the funds were obliged to pay them.
- [274] Mr Park says that the tasks which he considers to be part of the general funds management remuneration and expenses included the services provided by LMA pursuant to the Second Services Agreement which relate to the management of the business of LMIM being a funds' manager generally. It will be noticed that unlike the remuneration the subject of the Category 1 claims and Category 2 claims, LMA's entitlement to payment of the LMA Remuneration Invoices represents an expense of LMIM payable to LMA, not remuneration of the liquidators of LMIM recoverable under s 556 of the CA.
- [275] As previously mentioned, it is no part of the court's function under the CA to approve sums payable by LMIM to LMA as an expense. The court's determination of remuneration under the CA on this application is as to remuneration of the first applicants as liquidators of LMIM only.
- [276] The first applicants submit, accurately as I think, that there is no question of approval of their remuneration as administrators of LMA on this application. So it is not surprising that there is no evidence to which they point of the work done to justify the relevant amounts. However, the first applicants further submit that the creditors of LMA have approved the remuneration as though the amount as approved is to be taken to be established for the purposes of this application.

- [277] I do not agree. Whether LMIM is liable for the first applicants' remuneration as an expense properly incurred under the Second Services Agreement or otherwise and in what amount having regard to any other amounts paid by LMIM for services provided by LMA, are not questions that have been properly raised or litigated on this application.
- [278] What the first applicants seek to do in this application is to have the court decide whether their remuneration incurred in LMA as invoiced by LMA to LMIM in the LMA administrators' invoices is recoverable as an expense of LMIM from the various funds on the principle of the cases discussed above. But in none of those cases was the suggestion made that the remuneration of the liquidator (or administrator) of another company was recoverable against the trust fund assets administered by the trustee company in liquidation.
- [279] Even if the first applicants' remuneration as administrators of LMA were an expense of LMIM which is properly recoverable from the trust property of the funds, the indemnity that would be payable from those funds is in the amount that LMIM "incurred in relation to the performance of its duties" as responsible entity and "only in relation to the proper performance of those duties"<sup>80</sup> or "reasonably incurred in or about the execution of the trusts".<sup>81</sup> In my view, the applicants cannot foreclose those questions in the administration of any of the trusts of the funds by pointing to the resolution of the creditors in the administration of LMA approving their remuneration as establishing the amount.
- [280] In my view, no order should be made that the FMIF or other funds should bear the expense of the LMA Remuneration Invoices or any lesser amount representing a partial allocation of the amount of those invoices
- [281] In accordance with para 100 of Mr Park's first affidavit, the amount of Category 2 remuneration, apart from the LMA Remuneration Invoices was \$1,408,492.99 for the whole of the relevant periods, less any appropriate allocation for the Managed Performance Fund as previously mentioned.<sup>82</sup> It may be necessary to review the reduction of \$278,522 as previously described.
- [282] By par 4 of the Draft Order, the applicants propose that their Category 2 remuneration and expenses as administrators be paid in the amount of \$952,095. That sum must be reduced by deducting \$401,568.78 included for the LMA Remuneration, resulting in the claimed amount of \$550,526.22.
- [283] Further, by par 10 of the Draft Order, the applicants propose that their Category 2 remuneration and expenses as liquidators be paid, in the amount of \$651,438.00.
- [284] In my view, those amounts should be allowed for the Category 2 remuneration, subject to consideration of the remaining arguments raised by Mr Whyte about particular subject matters, as follows.

### **Category 2 - media and other inquiries**

<sup>80</sup> *Corporations Act 2001* (Cth), s 601GA(2).

<sup>81</sup> *Trusts Act 1973* (Qld), s 72.

<sup>82</sup> Para [264].

- [285] In Mr Park's third affidavit, at par 38(c), he refers to dealing with media inquiries as to the state of the funds and that there was substantial media interest in the administration at the time. In Mr Whyte's third affidavit, at par 50(a), he says that dealing with media and inquiries is a matter he would regard as an incidental function, rather than work that benefits the funds.
- [286] I agree with the observation that this work was incidental, if what is meant is that it was incidental to the funds operations as investments made by many members of the public, and that the FMIF was clearly the largest fund with the most members of the public in question. It does not make sense, in my view, to regard this work as not related to the operation of the funds.
- [287] In my view, the remuneration for these tasks should be ordered to be paid from the property of the funds, including the FMIF. There should be no reduction of the amount claimed on this account.

#### **Category 2 - books and records**

- [288] In Mr Park's third affidavit, at par 38(e), he refers to dealing with matters relating to the various books and records issues which have arisen as work that was performed in relation to LMIM that he believes was for the benefit of the funds including the FMIF. In Mr Whyte's third affidavit, at par 50(b), he says that the books and records were held by LMA and, insofar as any issues arose after his appointment, any work by the first applicants was for the benefit of LMIM or in respect of funds other than the FMIF. Mr Whyte negotiated access to the books and records via the liquidator of LMA and he considers that he represented the interests of the FMIF in applications to the court about the books and records.
- [289] It is right, in my view, that LMIM's role as responsible entity of the FMIF in relation to matters dealing with the various books and records should have been reduced by Mr Whyte's appointment as receiver of the property of the FMIF. But it does not appear to me to follow that none of the work in question was for the benefit of the FMIF or that the first applicants were not required to deal with matters relating to the various books and records in relation to the creditors of the FMIF.
- [290] In my view, the remuneration for these tasks should be ordered to be paid from the property of the funds, including the FMIF. There should be no reduction of the amount claimed on this account.

#### **Category 2 - closing satellite offices**

- [291] In Mr Park's third affidavit, at par 38(f), he refers to communicating with and closing various satellite offices which LMIM maintained for marketing purposes around the world as work performed in relation to LMIM which he believes was for the benefit of the funds, including the FMIF. In Mr Whyte's third affidavit, at par 50(c), he says that he is not aware of the benefit or connection to the FMIF as a result of this work. Mr Whyte says further that he apprehends that the work related to the MPF or to LMA and its own business of marketing and raising funds for investment, but gives no basis for that apprehension. He does not say it as a matter of personal knowledge or that there is some other basis for his being able to give evidence of those matters as matters of fact.



- [292] Mr Whyte submits that his “apprehension” is more likely to be correct. In my view, it would not be safe to proceed on Mr Whyte’s evidence in this respect, rather than the view that the winding up of the funds’ businesses, including the FMIF, required closure of the various satellite offices.
- [293] In my view, the remuneration for these tasks should be ordered to be paid from the property of the funds, including the FMIF. There should be no reduction of the amount claimed on this account.

#### **Category 2 - investor advisors inquiries**

- [294] In Mr Park’s third affidavit, at par 38(g), he refers to dealing with enquiries from investor advisors who may have promoted investment in several of the funds for many different unitholders, as work performed in relation to LMIM that he believes was for the benefit of all the funds, including the FMIF. In Mr Whyte’s third affidavit, at par 50(d), he says that he has not yet received any creditor indemnity claim with respect to claims by any such advisers.
- [295] Mr Whyte submits that is a matter of concern. Whether or not it is, I do not understand how that concern dispels the conclusion that this work and the remuneration for it should be allowed. There is no logical connection between whether the first applicant performed work answering enquiries from investor advisors and whether LMIM or an advisor has sought indemnity from Mr Whyte against specific claims advisors may have made as creditors.
- [296] In my view, the remuneration for these tasks should be ordered to be paid from the property of the funds, including the FMIF. There should be no reduction of the amount claimed on this account.

#### **Future remuneration and expenses**

- [297] By par 12 of the application the applicants seek a general order that the remuneration and expenses of the first applicants in the winding up of LMIM as may be approved from time to time shall be borne and paid by the FMIF and the other funds in a proportion to be determined in the same manner as that which the court directs their remuneration to be borne and paid in the present application.
- [298] The basis for such an order was not identified by reference to either principle or authority. In my view it is not an order that should be made.

#### **Resolving the remaining questions**

- [299] In considering the matters dealt with up to this point I have kept an eye upon the proportionality of the remaining amounts claimed by the applicants for their remuneration. I have given the question anxious consideration.
- [300] However, in my view, any further reductions in the remuneration to be allowed on this account would be a matter of speculation. The applicants bear the onus of proof, and there must be concern about the overall amounts that have been charged for the winding up of the FMIF for the period after 21 August 2013. It may be that if regard were had to the remuneration and expenses of Mr Whyte and the DB Receivers, a lack of proportionality would clearly emerge. But no evidence of that kind was put before me on this application as to the relevant amounts. Mr Whyte’s

opposition was limited to a generally stated "concern" as to the matter of proportionality.

- [301] In the circumstances, despite those concerns, I have decided not to reduce the amounts otherwise allowable as reasonable amounts on the ground of proportionality.
- [302] As appears from these reasons, I have concluded that only a limited amount of further material or submissions is required in order to finalise the orders to be made. In those circumstances, I do not propose to order that the remaining questions be referred to a registrar or referee.
- [303] The appropriate course is to give the applicants and the respondent an opportunity in the light of these reasons to agree upon the appropriate form of orders or, if no agreement can be reached, to set directions to resolve the remaining questions.
- [304] Any further form of draft order should separately identify the relevant expenses for the FMIF in accordance with the section of these reasons headed "Expenses that are not remuneration", not including the LMA Remuneration.
- [305] The order sought fixing the first applicants' remuneration as liquidators should excise any expenses and not include remuneration not allowed under these reasons.

#### **Costs**

- [306] Paragraph 14 of the application seeks an order that the costs of the application shall be borne by and paid from the assets of the FMIF and the other funds in the same proportion in which the remuneration is to be paid. However, by the draft order the applicants submit that they should have the opportunity to make submissions as to costs in the light of these reasons.
- [307] In my view, it is appropriate that the parties have the opportunity to make submissions as to costs.