

## INVESTOR UPDATE (Q&A)

# IPO Wealth Fund

4 June 2020

Dear Unitholder

We are writing to you as the trustee (**Trustee**) of the IPO Wealth Fund (**Fund**).

Over the past two months and since our first Investor Update of 7 April 2020 we have received many questions from Unitholders about the actions we have and are taking as trustee of the Fund and the status of your investment.

We see the information we provide as being of benefit to all Unitholders and have sought in this update to provide answers to some commonly asked questions.

### **Why did Vasco put IPO Wealth Holdings Pty Ltd into receivership and apply to the Court to put its wholly owned subsidiaries into receivership?**

As disclosed in the Fund's Information Memorandum (**IM**), the Fund was established as a wholesale only fund with the investment strategy to lend money to related parties of IPO Wealth Pty Ltd, the Fund's Investment Manager, with the aim of generating income for the Fund's Unitholders from the interest charged to the borrower.

The Fund's only borrower is IPO Wealth Holdings Pty Ltd (**Borrower**).

The Borrower's obligations to the Trustee with respect to the Fund are to meet the requirements of the loan agreement and general security agreement, one of the most important of which is to repay the required amounts of principal and interest on time. So long as these requirements are satisfied, the Borrower has discretion to invest the loan proceeds according to its investment criteria, as outlined in the Fund's IM.

The loan proceeds, and any assets which are acquired using such loan proceeds, are not an asset of the Fund. Rather, they are an asset of the Borrower and the Borrower holds those assets in its personal capacity.

As outlined in the IM, the Investment Manager is responsible for the management of the loan except where the loan falls into arrears. Where this occurs, the Trustee has an obligation to take over management of the loan independently from the Investment Manager.

When the Borrower began falling behind on its payment obligations, the Trustee stepped in and attempted to negotiate and implement payment plans with the Borrower while making further

enquiries into the Borrower's financial affairs to satisfy itself that the Borrower's obligations to the Fund under the loan agreement could be met. The Trustee's submissions to the Supreme Court of Victoria (**Court**) are available on the Trustee's website (see [www.vascofm.com/home/funds/income/ipo-wealth-fund/](http://www.vascofm.com/home/funds/income/ipo-wealth-fund/)) and provide a useful chronology of these steps in more detail.

Due to the Borrower missing its payment obligations under a negotiated payment plan as well as the Trustee's increasing concerns over the Borrower's purported dealings with the Assets, the Trustee determined it to be in the best interests of Unitholders to appoint Receivers and Managers to the Borrower and applied to the Court to appoint the same Receivers and Managers over the Borrower's wholly owned subsidiaries.

This decision was made with a view to ensuring the assets of the Borrower and its wholly owned subsidiaries (**Assets**) were preserved as far as possible while giving the Receivers and Managers the power and opportunity to make further enquiries regarding the value, documentation and status of those Assets.

### **What is the role of the Receiver and Managers?**

The role of the Receivers and Managers is to account for all the Assets, assess their value and recoverability and report back to the Court. Whilst they have the power of sale, it is likely that no realisation of Assets will take place without the Trustee's input and directions of the Court.

The Receivers and Managers have an obligation both under the Corporations Act and to the Court to ensure that their actions are carried out in the best interests of the relevant stakeholders, which in this case is the Trustee (as secured creditor) and in turn, the Unitholders of the Fund.

### **Will liquidators be appointed?**

At last Friday's hearing (on 29 May 2020), the Court appeared minded to ensure that the Receivers and Managers could apply (if they wished) to be appointed provisional liquidators of the wholly owned subsidiaries of the Borrower in order to give them more powers than receivers and managers would typically have. These powers include holding public examinations and claw-back powers, to ensure Unitholders ultimately have the best chance of recovering their capital investment in the Fund.

Appointing liquidators was suggested as a possible avenue given the concerns raised by the Receiver and Manager in the report prepared by them and submitted to the Court last Friday.

It should be noted that the Trustee is not inferring or suggesting that Mr Mawhinney has breached provisions of the Corporations Act. However, liquidators, if appointed will have free range to examine all facts and transactions in light of voidable transaction provisions of the Corporations Act and the law generally.

Accordingly, on Friday evening last week, and believing it to be in the best interests of Unitholders, the Trustee applied to the Court to appoint the Receivers and Managers as provisional liquidators or as

liquidators over the Borrower. The Receivers and Managers made a similar application at the same time to appoint themselves as provisional liquidators or as liquidators over each of the Borrower's wholly owned subsidiaries.

These applications will be heard by the Court on 24 June 2020.

### **What is the Trustee's relationship to 'IPO Wealth' and the 'Mayfair 101 Group'?**

The Trustee is not a related party of IPO Wealth Pty Ltd (the Fund's Investment Manager), IPO Wealth Holdings Pty Ltd (the Borrower) or any entities associated with the group of companies commonly referred to as the 'Mayfair 101 Group'.

The Trustee is an independent trustee for the Fund. This means it is not owned or operated by the Investment Manager of the Fund or any of the Investment Manager's related entities.

The Trustee's relationship with the Investment Manager is governed by an investment management agreement dated 23 March 2017 (**IMA**). Under the IMA, the Investment Manager agrees to provide investment management services to the Trustee in relation to the Fund.

The Trustee's relationship with the Borrower is governed by a loan agreement and general security agreement, both dated 21 April 2017.

These relationships and the Trustee's role as trustee for the Fund are described in the Information Memorandum for the Fund.

### **When will I get my money back?**

The Receivers and Managers are yet to provide any reports or indication of timing in terms of when the Assets may be realised and for what value.

Our current view is that the Assets of the Borrower should be sold down in an orderly and efficient process over time to optimise the sale price and any recovery for Unitholders. We consider that it would be a better outcome for Unitholders to receive as much of their money back as possible over a reasonable period of time rather than selling Assets quickly at a potential discount to their inherent value.

Based on our discussions with the Receivers and Managers, our expectation is that an orderly and efficient sale of Assets could take many months or even a couple of years in respect of some Assets. As noted above, it is likely that the Receivers and Managers (or the liquidators, if appointed) would ordinarily seek directions from the Court to approve the entry into transactions with respect to the sale of Assets and would, as part of such Court application, provide their reasoning and analysis of their decision to proceed down a particular path.

As soon as we have a better indication from the Receivers and Manager (or the liquidators, if appointed) of when the Assets may be realised we will promptly communicate this to Unitholders.

As outlined in earlier updates, we are considering making a compulsory redemption on a pro-rata basis to all Unitholders in July 2020. Given events of the last few weeks we are still determining the precise amount available for this redemption and will communicate this to Unitholders once determined.

### **Will I get all my money back?**

The Receivers and Managers have been tasked by the Court to ascertain the solvency of the Borrower and the value of the Borrower's Assets.

Once the Receivers and Managers have concluded these enquiries, we will share this information promptly with Unitholders. Regretfully, we cannot at this stage provide any more certainty around how much money each Unitholder will get back.

After taking into account anticipated liabilities and expenses of the Fund, the Trustee will use any monies received from the Borrower, as realised by the Receivers and Managers from the sale of Assets, to redeem Unitholders out of the Fund on a 'pro-rata' basis.

### **What does a 'pro-rata redemption' mean?**

A 'pro-rata redemption' means that the Trustee will pay redemptions to all Unitholders at the same time in proportion to the number of Units they hold.

For example, if a Unitholder holds 5% of all Units on issue, they will receive a 5% share of any redemption proceeds paid by the Trustee at any point in time to Unitholders. Redemptions will be processed in accordance with the terms of the Fund's trust deed.

### **Did the Trustee make any enquiries as to the value of the investments made by the Borrower prior to the Borrower going into arrears?**

Historically the Trustee received from the Borrower a quarterly summary of all their investments held. These summaries indicated a market value of their investments well in excess of the value of the loan advanced to the Borrower.

In July 2019, the Trustee engaged an independent accounting firm to undertake a verification of the Assets, which meant confirming the documentation supporting their existence and, to the extent possible given their unlisted nature, confirming the market value given to them by the Borrower. This verification confirmed to the Trustee at that time that the value of the Assets held by the Borrower was significantly in excess of the value of the loan advanced to the Borrower.

### **Why was my withdrawal request provided prior to the freeze on redemptions not processed?**

The last redemptions processed by the Trustee were for February withdrawal requests and were paid in early March 2020.

Under the withdrawal terms of the Information Memorandum, withdrawals are processed subject to both receipt of a withdrawal request by the relevant cut off time and available liquidity within the Fund.

Throughout March 2020, the Trustee sought confirmation from the Borrower that it was able to fulfill its repayment obligations under the loan agreement so that the Trustee could ensure the Fund's liquidity to process withdrawal requests. At the time the withdrawal requests for March were invited by the Trustee, we believed in good faith that redemptions would be able to be processed in the ordinary course.

Once it became apparent to the Trustee that the Borrower was unable to meet these repayment obligations, and therefore the Trustee could not ensure the Fund's liquidity, the Trustee determined it to be in the best interests of all Unitholders in the Fund to "freeze" all redemptions of Units from the Fund, reinvestment of any distributions and any applications into the Fund.

### **Why should some Unitholders who have not served their 'Investment Term' be treated the same as me?**

One of the primary tenants of being a trustee is to act in the best interests of all Unitholders. This means Unitholders are to be treated fairly.

Once the Fund's loan to the Borrower was in arrears and there was doubt as to the Borrower's ability to meet its ongoing payment obligations to the Trustee, the Trustee determined to freeze redemptions for all Unitholders regardless of what their Investment Term might be and proceed with pro-rata redemptions for all Unitholders as and when monies became available to do so again regardless of what their Investment Term might be.

This course of action prevents some Unitholders from exiting the Fund while other Unitholders remain carrying all the risks associated with the Fund's loan to the Borrower.

The Trustee considered the most equitable recourse available to it was to freeze redemptions for all Unitholders and to proceed with an orderly realisation of Assets and process redemptions for all Unitholders on a pro-rata basis. This results in Unitholders being treated fairly as a whole.

### **I am suffering from hardship, can I get my money now?**

As noted above, the Fund is frozen to all redemptions. This means no Unitholder can exit the Fund regardless of your personal circumstances, situation and needs. The Trustee will only be processing redemptions pro-rata across all Unitholders as and when the money is available to do so. This ensures Unitholders are treated fairly as a whole.

### **Will I continue to receive distributions?**

There will not be a May distribution, despite our initial hopes in earlier updates that we would be able to provide a May distribution subject to the Borrower adhering to the payment plan agreed to by them.

At this stage the Trustee only intends on paying a distribution once the Fund's taxable income for the financial year ending 30 June 2020 is determined. If a distribution is payable we expect it to be paid by the end of August 2020.

The Trustee will consider what future distributions may be payable once the Receivers and Managers are able to provide a clearer indication to the Trustee about the income that the Borrower's Assets will be able to generate prior to the sale of those Assets.

### **Who do I speak to if I have questions about my investment in the Fund?**

We have endeavoured to engage with as many Unitholders as we can who have contacted us over the recent months and to answer your questions as clearly and succinctly as we can.

We intend to provide regular written 'Investor Updates' as a means of ensuring all Unitholders are informed of relevant events with respect to the Fund and the realisation of the Assets.

The Investor Updates will be available on the Trustee's website (see [www.vascofm.com/home/funds/income/ipo-wealth-fund/](http://www.vascofm.com/home/funds/income/ipo-wealth-fund/)). If you still have questions, you can speak with your financial adviser or contact us by email on [info@vascofm.com](mailto:info@vascofm.com).

Our primary focus has been, and will continue to be, ensuring the Fund's rights against the Borrower are exercised judiciously with a view to ensuring the best possible outcome for Unitholders as a whole in the circumstances.

We will continue to provide Unitholders with regular updates as further actions are taken and more information becomes available.

Yours faithfully

**Vasco Trustees Limited**  
**as trustee for the IPO Wealth Fund**