

# First Statutory Managers' Report to Investors

Aorangi Securities Limited, Hubbard Management Funds,  
Mr AJ and Mrs MJ Hubbard and Associated Trust Entities

12 July 2010

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# Introduction and History

On June 20, 2010, Richard Grant Simpson and Trevor Francis Thornton were appointed Statutory Managers of Aorangi Securities Limited, a number of charitable trusts and Mr Allan and Mrs Margaret (Jean) Hubbard personally. Since that date the Statutory Management team has been working through the affairs of the various entities and interests of Mr and Mrs Hubbard in order to establish the current position.

## **Purpose of this Report**

This report has been prepared by the Statutory Managers for the purpose of reporting to investors as to the status of investors' investments in the entities in statutory management.

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

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

In exercising the Statutory Managers' role, the statutory managers recognise the need to protect the interests of the shareholders, creditors and beneficiaries of the entities in statutory management, resolve the difficulties that have been encountered and preserve as far as possible the businesses of the entities under statutory management.

## **References**

In this report, we refer to a number of entities. Aorangi Securities Limited ("Aorangi") received money from investors and has apparently applied the money to a combination of independent parties and entities associated with Mr and Mrs Hubbard. A charitable trust, Te Tua Trust, which is also in statutory management, has borrowed money from Aorangi and provided interest free loans to a range of business people. A number of other charitable trusts now under our management were formed in March 2010 and they purport to have taken ownership of some assets associated with Mr and Mrs Hubbard. Hubbard Management Funds is an investment management business managed by Mr Hubbard.

# Present Position

It has been approximately three weeks since our appointment as Statutory Managers.

We are mindful of the impact that this has had on the lives of Mr and Mrs Hubbard and also those with financial associations with the entities under Statutory Management. One of our first key objectives is to complete a review of Mr and Mrs Hubbard's affairs as quickly as possible. To date we have seen clear evidence that there is an intricate and complex relationship between the affairs of Aorangi, Te Tua Trust and the affairs of Mr and Mrs Hubbard and other associated entities.

A lack of paper work is also impeding our progress. The standard of the paper work for the entities is not what we would have expected to have found for business entities of this size and complexity. As a result, we will need some time to complete a review of the position and to decide what action is needed. This report is necessarily therefore a brief statement of our current understanding and findings based on the information we have been provided to date, pending a comprehensive review being completed. It may be that as we learn more our understandings and findings will change.

For the above reasons, until we have a clear understanding of the status of Aorangi and Hubbard Management Funds, their assets and investments have been frozen in the interim and could remain so for some months.

Becoming aware of Hubbard Management Funds (an investment management business controlled by Mr Hubbard), of which we were not aware at the time of our appointment, has added another complexity to our role.

To date, we have had co-operation from all parties. Mr and Mrs Hubbard are being provided with independent legal and accounting advice.

# Aorangi Securities Limited (“Aorangi”)

## **Situation**

- All known investors in the company have been contacted by post.
- Of the 400 investors, to date we have had about 300 responses.
- Based on the responses, we consider that the investor balances within the company records appear to be accurate.
- A large number of related party loans associated with Mr and Mrs Hubbard’s farming and other business interests and recently formed charitable trusts are shown in Aorangi’s records.
- The records of Aorangi show it has total assets of \$132 million. Investors, other than Mr and Mrs Hubbard, have contributed \$96 million to Aorangi. From our work so far, it appears over \$106 million is invested in (including by loan to) businesses and charitable trusts where Mr and Mrs Hubbard have a direct or indirect financial interest.

## **Investment authorities**

- From their responses to us, it is clear that investors had a wide range of expectations of their investment with Aorangi.
- A number of investors provided a formal authority to the company with specific direction on how their funds were to be invested.
- A limited number of investors have signed a formal authority for investment in a contributory first mortgage over land.

## **Investments at risk**

- Some investors, who believed their investments were secured over land, may not in fact have this security.
- The level of investments in (including loans to) businesses associated with Mr and Mrs Hubbard without registered security is of concern. Most of these investments are in or to farm businesses that have loans from banks secured by a mortgage over the assets of the farm. This could mean, in the case of direct investments in those farm businesses, that Aorangi would only be paid after the creditors of those businesses were fully paid. There may therefore be a risk in certain circumstances that Aorangi does not recover all the money due to it.

- We are aware that some security documentation was prepared in March 2010, but has not been registered.
- The Crown's Retail Deposit Guarantee Scheme does not cover the investments in Aorangi.

#### **No returns in short term**

- Investors should not expect any return of capital or interest in the short term. We know this will be distressing for the people who have received regular payments from Aorangi. However we need to fully understand Aorangi's financial position in order to help protect all investors and to fulfil our management role.
- Investors should nevertheless contact us if they consider that they have relevant information that the Statutory Managers ought to be aware of.
- The uncertainty of security and priority of the investors may require direction from the Court. This process will take time.

#### **Borrower issues**

- Aorangi started as a contributory mortgage company in 1974. Over time it seems that its operation has changed so that it now appears to operate in a manner which bears similarities to a finance company, and it appears to have lent to or invested in both entities related to Mr and Mrs Hubbard and third parties.
- Investigations into the loans and any associated securities requires further verification of the loan details. Any arrears will need to be addressed. There are early indications that some loans may be impaired. We will continue our investigation further.
- Certain loans made by Te Tua Trust may be impaired. If so, returns to Aorangi will be reduced.

## Hubbard Management Funds (“HMF”)

Hubbard Management Funds is an investment management business operated by Mr Hubbard. Some investors in Hubbard Management Funds are also investors in Aorangi.

- It seems that Mr Hubbard makes all or most of the investment decisions regarding HMF and undertakes communications with share brokers.
- In our opinion the accounting systems for HMF are not adequate.
- Because of the nature of HMF's accounting systems, it is not possible to accurately calculate the value of HMF at any time. HMF is presently estimated to be \$70 million. The actual value of HMF will not be known until the reconciliation is completed as at 31 March 2010 and then updated to 20 June 2010.
- Those investors who have yet to receive annual statements for the 31 March 2010 year should do so shortly.
- The funds in HMF have been frozen. No new funds are being accepted for investment and no withdrawals may be made at least until the accounting for HMF is brought up to date.
- Completion of the reconciliation of HMF as at 31 March 2010 is expected shortly. Transactions in the fund will then be updated. We expect this will be completed within 2 weeks.
- Investors in HMF should be aware that, current indications are that the market value of the portfolio has reduced since 31 March 2010.
- The Crown's Retail Deposit Guarantee Scheme does not cover the investments in Hubbard Management Funds.

### **Management fee authorities and disclosures**

- Most investors were charged a management fee each December. It seems this was at a rate decided by Mr Hubbard.
- We understand investors were not necessarily charged the same percentage management fee. The management fee appears to have been variable based on the performance of the investor's investment.

- We are not aware of any formal disclosure document having been provided to investors before their investment in HMF.

**Accounting processes and reconciliations**

- Investors have to date received an annual statement showing the transactions on their account during the year and the value of HMF at 31 March year end.
- The HMF valuation has been based on a list of individual securities allocated to each investor (including Mr Hubbard), and valued at the year end market value.
- We understand Mr Hubbard has maintained the client investment records manually by way of a hand written cashbook and journal entries, which are then posted to an electronic ledger account.
- There is no specific fund management software utilised that allows the entire portfolio to be balanced on a daily basis and an investor position statement at market value to be generated.

## Charitable Trusts

- We were appointed statutory managers of Te Tua Charitable Trust which was formed many years ago. As noted earlier in this report, Te Tua Trust has provided interest-free loans to business people. We are undertaking a complete review of Te Tua Trust's loan portfolio of approximately 170 loans. We will be shortly taking steps to recover arrears.
- We were also appointed Statutory Managers of Otipua Charitable Trust, Oxford Charitable Trust, Regent Charitable Trust, Morgan Charitable Trust, Benmore Charitable Trust, and Wai-iti Charitable Trust.
- As disclosed in the media, these charitable trusts were formed in March 2010. Some assets held by Mr and Mrs Hubbard have apparently been transferred to these trusts in March 2010. We are working through the implications of these transfers.

## Conclusion

There is an intricate and complex intermingling of affairs, which will take some time to work through. We plan to again report on our ongoing detailed investigation work by the middle of August 2010.

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