LM MANAGED PERFORMANCE FUND

ABN: 95 595 833 174

AND ITS CONTROLLED ENTITIES

Annual Report

For the year ended 30 June 2012

Audited

LM MANAGED PERFORMANCE FUND

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Annual Report - 30 June 2012

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LM MANAGED PERFORMANCE FUND
AND ITS CONTROLLED ENTITIES
Directors' Report

DIRECTORS' REPORT

The Directors of LM Investment Management Ltd, the Manager of LM Managed Performance Fund (the "Scheme"), present their report together with the audited consolidated financial statements of LM Managed Performance Fund and its controlled entities ('the Consolidated Group"), for the financial year ended 30 June 2012. The director's report is not part of the financial report.

DIRECTORS

The following persons held office as directors of LM Managed Performance Fund, during the year or since the end of the year and up to the date of this report:

Name	Period of directorship
Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003 . Resigned on 12 June 2012
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006
Mr John O'Sullivan	Appointed 27 November 2007. Resigned on 19 September 2012
Mr Simon Tickner	Appointed 16 December 2008. Resigned on 13 July 2012
Mr Grant Fischer	Appointed 14 March 2012 . Resigned on 12 August 2012
Ms Katherine Phillips	Appointed on 13 July 2012

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the financial period were investment in a combination of interest bearing cash investments, property investment and debt structured loans for the purchase and/or development of Australian real property.

There were no significant changes in the nature of these activities during the year.

SCHEME INFORMATION

LM Managed Performance Fund is an Australian unregistered scheme constituted in December 2001. LM Investment Management Ltd, the Manager of the Scheme, is incorporated and domiciled in Australia.

The registered office of the Manager and the Scheme is located at Level 4, RSL Centre, 9 Beach Road, Surfers Paradise, Queensland 4217

REVIEW OF RESULTS AND OPERATIONS

Results

During the year, the Scheme continued to invest directly in:
* Commercial loans secured by either registered first or second mortgages for the purchase and/or development of Australian real property, companies, investment properties and cash.

Net profit attributable to unitholders for the year ended 30 June 2012 was $21,361,292 (2011: $19,566,742).

The Fund maintained full capital value and has continued to deliver its targeted benchmark returns to investors through a commensurate increase in unit value, reflecting achievement of target performance of 3% - 5% pa above cash rates.

Distributions
Distributions to unitholders during the year totalled $ 23,167,343 (2011: $19,760,442).

Investments in the fund are termed placements. These can be placed up to a maximum of 5 years. The 3 to 5 year investment terms continue to be an increasing component of the funds overall holding.

REVIEW OF RESULTS AND OPERATIONS (Continued)
Fund Redemptions

During the period, the Manager continued to progress with the various development aspects specific to the underlying assets and balance the cash needs of that asset development with the ongoing payment of investor redemptions.

Significant progress has been made across both areas. A number of the assets are now at the point of presales and commencement of construction, and will return liquidity to the Fund through sales from 2013 onwards.

The MPF has continued to pay investor redemptions. From a high of just under 40%, fund redemptions now measure at less than 6% of Funds Under Management.

Looking forward, the Fund is now moving into a more liquid position as cash variables in the form of loan repayments are realised. New investor inflows will always remain a variable; however the fund portfolio management model forecasts actual loan repayments and capital from the sale of assets increasing significantly from the end of the 1st quarter of 2013. As such, the Directors forecast the MPF liquidity to be operating within normality by the middle of 2013. The Directors are aware that many investors have an immediate need for cash, and we are actively pursuing initiatives on several fronts which, should they come to fruition, will see the Fund make a considerable catch up on redemptions early in 2013. The prime objective of the fund continues to be to maintain investor capital and achieve the targeted outperformance. The Fund has achieved that objective and to date the Fund has declared investor returns at or above target of 3.00%pa - 5.00%pa over cash rates whilst maintaining full capital value.

The Directors are pleased to report that development progress has been made on the fund’s underlying property assets during the year. Cash flow for the fund has been prioritised towards required work on the assets as well as the performance of the fund. A number of development assets are now ready to commence staged construction and presales, with those asset sales expected to generate increased cash flow into the fund from 2013 onwards. The Manager keeps an updated profile of assets which can be obtained by contacting your financial advisor or the Manager.

Maddison Estate

As you are aware Maddison Estate is a major asset within the fund. The Directors are pleased to provide a brief update of that asset.

The Managed Performance Fund has made significant progress and enhancements to its anchoring asset, Maddison Estate. To date the MPF has funded and facilitated the successful acquisition and consolidation of 30 sites into the one englobo site required for the large 118 hectare residential development approved to 1,458 number of residential dwellings, incorporating as well some integrated commercial and retail space. The total number of residents expected to live at Maddison is approximately 3,500 when complete to current approvals.

Development Approvals have been obtained and works commenced with necessary land clearing for Stage 1 completed. Maddison is entering pre-sale stage with civil works now underway on site. This estate has attracted high profile business partners, TV personality Jamie Durie and Olympians Natalie Cook and Sam Riley who recently opened the onsite Sales Centre.

REVIEW OF RESULTS AND OPERATIONS (Continued)
Maddison Estate (Continued)

Queensland State and Local Governments stamped the Maddison Estate a project of “State Significance” which is expected to create over 3,500 jobs for the region. We expect the inclusion of the world’s first Kelly Slater Wave Park will see the gross value of Maddison increase to $1.5 billion as our plan is to increase development density then with further apartment style residences. Maddison has been successful in securing agreements with Australia’s most respected and well known building companies Ausbuild, Clarendon Homes, Metricon and Plantation Homes. The staged development will see this asset commence capital repayments to the MPF in 2013.

Maddison Estate and four other major assets of the fund have attracted substantial offshore construction funding interest with current due diligence in process with two major institutions in USA and Asia. On successful completion of the due diligence, the projects will be fully funded to completion and attract substantial investment into the five prime growth regions of Australia in which these assets are located. A conditional letter of interest has been received from one of the offshore financiers confirming due diligence is progressing.

Performance
The performance of the Group, as represented by the results of its operation, was as follows:

	Consolidated	
	2012	**2011**
	$	**$**
Net operating income/(loss) before distributions	21,361,292	19,566,742
Finance costs: Distribution to unitholders	(23,167,343)	(19,760,442)
Increase/(decrease) in net assets attributable to unitholders	1,806,051	193,700
	-	-

UNITHOLDER FUNDS

There were 356,367,645 units on issue at 30 June 2012 (2011: 249,968,345). During the year 149,959,816 units issued by the Scheme (2011: 132,091,715) and 43,560,516 of units were withdrawn (2011: 35,973,235).

SCHEME ASSETS

At 30 June 2012 LM Managed Performance Fund Consolidated Group held assets to a total value of $ 376,745,650 (2011: $279,837,532). The basis for valuation of the assets is disclosed in Note 2 to the financial statements.

FEES PAID TO AND INTERESTS HELD BY THE MANAGER AND ASSOCIATES

The following fees were paid to the Manager and/or its associates during the financial year:

	2012	**2011**
	$	**$**
Management fees to LM Administration Pty Limited by LM Managed Performance Fund.	11,368,182	1,397,727

This represents 3.1% of average net assets of the Fund. This pre-planned increase in management fee is reflective in the growth of assets in the Fund and allows the Manager to employ additional resources required to properly manage those assets to the benefit of investors.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Manager, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

LM MANAGED PERFORMANCE FUND
AND ITS CONTROLLED ENTITIES
Directors' Report

SIGNIFICANT EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Further information on likely developments in the operation of the Scheme and the expected results of those operations has not been included in this report because the Manager believes it would likely result in unreasonable prejudice to the Scheme.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of the Consolidated group are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Consolidated Group.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either of the officers of LM Investment Management Ltd. Provided the officers of LM Investment Management Ltd act in accordance with the Scheme Constitution and the Law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Consolidated Group.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors of LM Managed Performance Fund.

Peter Drake
Director

Gold Coast
Date: 7th day of December 2012

LM MANAGED PERFORMANCE FUND
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AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF LM INVESTMENT MANAGEMENT LIMITED AS RESPONSIBLE ENTITY FOR
LM MANAGED PERFORMANCE FUND AND ITS CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

WILLIAMS PARTNERS
INDEPENDENT AUDIT SPECIALISTS

Reg L Williams

REG L WILLIAMS **BCom CPA RCA**
PARTNER
Registered Company Auditor No. 165400

Dated this 7th day of December 2012

4 Helensvale Road
Helensvale Qld 4212
Australia

LM MANAGED PERFORMANCE FUND
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 30 June 2012 $	30 June 2011 $
Income			
Interest revenue - mortgage loans		60,661,058	47,740,840
Interest revenue - cash assets		462,052	265,907
Realised foreign exchange gain on investor funds		7,881,609	3,195,301
Unrealised foreign exchange gain on investor funds		-	19,521,407
Unrealised foreign exchange gain on foreign exchange contracts		453,560	-
Profit on sale of non-current assets		-	8,145,634
Other income		42,991	38,726
Total revenue and other income		69,501,270	78,907,815
Expenses			
Management fees		11,368,182	1,397,727
Finance costs	4	38,896	2,894,874
Advisor Commissions		10,053,567	6,185,909
Impairment losses on mortgage loans		5,376,847	16,047,075
Unrealised foreign exchange losses on investor fund		9,656,502	-
Realised loss on foreign exchange contracts		11,166,983	26,451,001
Unrealised foreign exchange losses on foreign exchange contracts		-	5,930,403
Legal fees		106,305	32,473
Other expenses		372,696	401,611
Total expenses and distributions to unitholders		48,139,978	59,341,073
Net profit/(loss) before distribution to unitholders		21,361,292	19,566,742
Distributions paid/payable to unitholders	3	(23,167,343)	(19,760,442)
Net profit/(loss) after distribution to unitholders		(1,806,051)	(193,700)
Other comprehensive income		-	-
Changes in net assets attributable to unitholders		(1,806,051)	(193,700)
Income tax benefit/(expense)		-	503,680
Changes in net assets attributable to unitholders after income tax expense		(1,806,051)	309,980

LM MANAGED PERFORMANCE FUND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		Consolidated	
	Note	**30 June 2012**	**30 June 2011**
		$	**$**
ASSETS			
Cash and cash equivalents	14	17,287,984	19,492,224
Receivables	13	26,322,229	26,085,844
Prepayments		27,726,132	7,989,959
Fair value of forward exchange contracts	16	-	-
Loans and receivables	8	299,570,308	220,742,619
Investment Properties	9	5,838,997	5,526,886
Deferred tax assets	10	-	-
TOTAL ASSETS		376,745,650	279,837,532
LIABILITIES			
Payables	11	(2,741,554)	(9,605,581)
Related parties loans	11	(9,917,992)	(10,093,089)
Distribution payables	3	(6,712,961)	(6,132,237)
Fair value of forward exchange contracts	16	(4,216,790)	(4,670,351)
Deferred tax liabilities	10	-	-
TOTAL LIABILITIES		(23,589,297)	(30,501,258)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		353,156,353	249,336,274

LM MANAGED PERFORMANCE FUND

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated	
	30 June 2012	**30 June 2011**
	$	**$**
TOTAL		
Opening balance	249,336,274	175,331,011
Units issued during the year	130,192,011	120,362,518
Units redeemed during the year	(43,326,296)	(35,973,235)
Units issued on reinvestment of distributions	16,856,801	11,729,197
Transfers to and from the statement of comprehensive income	(1,806,051)	309,980
Foreign exchange gain/(loss) on investor funds	1,903,614	(22,423,197)
CLOSING BALANCE	353,156,353	249,336,274

LM MANAGED PERFORMANCE FUND

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
		30 June 2012	30 June 2011
	Note	$	$
Cash flows from operating activities			
Other income received		11,836,331	1,263,135
Management fees paid / prepaid*		(26,953,511)	(3,270,787)
Other operating expenses		(29,108,577)	(39,194,791)
Finance cost paid		(38,896)	(2,894,875)
Net cash inflow/(outflow) from operating activities	14(b)	(44,264,653)	(44,097,318)
Cash flows from investing activities			
Payment for secured mortgage loans		(47,257,533)	(10,221,290)
Receipts from settled mortgage loans		10,763,496	15,909,740
Receipts from disposal of properties		-	-
Additions of properties		(312,111)	(759,498)
Net cash inflow/(outflow) from investing activities		(36,806,148)	4,928,952
Cash flows from financing activities			
Repayment of borrowings		(175,097)	(40,920,637)
Borrowings received		-	40,287
Cash (paid)/received on realisation of foreign exchange contracts		1,321,069	4,286,947
Receipts from the issue of units		130,192,011	120,362,518
Distribution paid		(5,729,818)	(4,772,731)
Payment for redemption of units		(46,741,604)	(32,255,435)
Net cash inflow/(outflow) from financing activities		78,866,561	46,740,949
Net increase/(decrease) in cash and cash equivalents held		(2,204,240)	7,572,583
Cash and cash equivalents at the beginning of the financial year		19,492,224	11,919,641
Cash and cash equivalents at the end of the financial year	14(a)	17,287,984	19,492,224

* See Note 12 for further information

1. CORPORATE INFORMATION

The financial report of LM Managed Performance Fund ("the Scheme") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors of the Manager on 29 November 2012.

LM Managed Performance Fund is an Australian unregistered scheme constituted in December 2001. The Scheme will terminate on 4 December 2081 unless terminated earlier in accordance with the provision of the Scheme Constitution (as amended).

LM Investment Management Limited, the Manager of the Scheme, is incorporated and domiciled in Australia. The registered office of the Manager is located at Level 4, 9 Beach Road, Surfers Paradise, Queensland.

The nature of the operations and principal activities of the Scheme are described in the Directors' report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

a) Basis of accounting

This financial report is a general purpose financial report that has been prepared in accordance with the Scheme Constitution, and the requirements of the *Corporations Act 2001,* which includes applicable Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared under the historical cost convention, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

The statement of financial position presents assets and liabilities in decreasing order of liquidity and does not distinguished between current and non-current, in accordance with AASB 101 - *Presentation of Financial Statement.* All balances are expected to be recovered or settled within twelve months, except for loans and receivables and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months in relation to these balances cannot be reliably determined.

The financial report is presented in Australian Dollars ($).

Statement of compliance

The financial statements have been prepared in accordance with the Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis of consolidation

This consolidated financial report comprises the financial report of LM Managed Performance Fund and its subsidiaries as at 30 June 2012 ("the Group").

Subsidiaries are all those entities over which the Scheme has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a parent controls another entity. The financial statements of subsidiaries are prepared for the same reporting period as the Scheme, using consistent accounting policies. Subsidiaries are fully consolidated from the date on which control is obtained and cease to be consolidated from the date on which control is transferred.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

In preparing the consolidated financial statements, all intercompany balances and income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the annual reporting period ended 30 June 2012. The impact of these standards and interpretations has been assessed and to the extent applicable to the Scheme are discussed below. Standards and Interpretations that are not expected to have a material impact on the Scheme have not been included.

AASB *Financial Instruments* and related amendment AASB 2009-11

AASB 9 applies to annual reporting periods beginning on or after 1 January 2013 and will therefore apply to the Scheme from 1 July 2013. The Scheme does not intend to early adopt AASB 9 as permitted by the standard, and the actual impact on initial application will depend on certain elections as disclosed below.

AASB 9 requires all financial instruments to be measured at fair value unless the criteria for amortised cost are met. The application of the standard is not expected to change the measurement basis of any of the Scheme's current financial instruments, however, AASB 9 allows the Scheme to elect to present gains and losses on equity securities through other comprehensive income, which may impact the presentation of these gains and losses. The impact of the standard may also change if the nature of the Scheme's activities or investments changes prior to initial application.

c) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

a. Allowance for impairment loss on loans and receivables

The Scheme determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of future cash flows through a "on completion" valuation or the property based on an "as is" valuation.

A provision of impairment was raised totalling $23.4 million against 6 loans which is based on current market assessments of recoverability of these loans. There has been no impact on unit price as this provision has been allowed for against the general earnings of the fund. The exit strategy on these loans will result in no impact on unit price as they are fully provisioned.

b. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Predominantly, these models are discounted cash flow analysis derived from extensive project feasibilities regularly updated to ensure current value of the instrument or loan/receivable is monitored.

The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

e) Distribution income

Distribution income is recognised when the unitholders' right to receive the payment is established.

f) Interest income

Interest income is recognised as the interest accrues using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

g) Default management fees

Income from default management fees is recognised in line with the executed agreement with the borrower when an event of default occurs.

h) Changes in the fair value of investments

Gains or losses on investments held for trading are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

i) Fees, commissions and other expenses

Except where included in the effective interest calculation (for financial instruments carried at amortised cost), fees and commissions are recognised on an accruals basis. Audit and compliance fees are included with 'other expenses' and are recorded on an accruals basis.

j) Finance costs

Interest on borrowings is recognised in the statement of comprehensive income in the period to which it relates. Issue costs associated with borrowings are capitalised and amortised over the term of the borrowing to which they relate using the effective interest method.

k) Financial Instruments

Financial instruments in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale investments or other financial liabilities as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Scheme determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Scheme commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Fair value of financial assets and liabilities through profit and loss

Financial assets held for trading included forward exchange contracts. These assets are acquired principally for the purpose of mitigating the risk of movements in the value of non-Australian Dollar investor funds and facilitating forecasting of future cash flows. During the period, all derivatives are classified as held for trading. Derivative financial instruments entered into by the Scheme do not meet the hedge accounting criteria as defined by AASB 139. Consequently, hedge accounting is not applied by the Scheme in the 2012 financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value including transaction costs directly attributable to the financial asset. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are assessed for impairment at each reporting period. An allowance is made for credit losses when there is objective evidence that the Scheme will not be able to collect the loans and receivables. Impairment losses are written off when identified. Losses expected as a result of future events are not recognised. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as an expense in the statement of comprehensive income.

The amount provided for impairment of loans is determined by management of the Scheme and the Credit Committee. A provision is made of loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The components of impaired assets are as follows:
"Loans in arrears" are loans and advances for which there is reasonable doubt that the Scheme will be able to collect all amounts of principal and interest in accordance with the terms of the agreement.

"Assets acquired through the enforcement of security" are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements. This comprises of prime property security plus any collateral security associated with the loan.

Where possible, the Scheme first seeks to restructure loans to have loans fully performing, however the Scheme will take possession of the collateral as necessary. The renegotiation may involve extending payment terms and arrangement of new loan conditions. Once the terms have been renegotiated any impairment is measured the same way as performing loans. The renegotiated loans continue to be assessed individually and collectively for impairment.

"Restructured loans" arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms and new terms are not comparable to the revised terms. These loans are removed from 'restructured loans' after a period of 12 months of performance against the loans revised terms and conditions. Loans with revised terms are included in 'loans in arrears' when impairment provisions are required.

When the Manager determines interest is not recoverable on certain impaired loans, the interest is suspended and not brought into income. Should the Manager's analysis of the collectability subsequently change the interest will be brought into income at the time it is determined to be collectible.

l) Advisor Fees

Advisor fees may be paid to the unitholders' investment advisors and are calculated as a percentage of funds invested in the Scheme. These fees are paid weekly in arrears and are brought to account on an accrual basis. The Scheme ceases to pay advisor fees when the related units are redeemed.

m) Payables

Payables are carried at amortised cost and represent liabilities for goods and services provided to the Scheme prior to the end of the financial year that are unpaid and arise when the Scheme becomes obliged to make future payments in respect of the purchases of these goods and services.

The distribution amount payable to investors as at the reporting date is recognised separately on the statement of financial position as unitholders are presently entitled to the distributable income as at 30 June 2012 under the Scheme's Constitution.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Increase/decrease in net assets attributable to unitholders

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income net yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax. Excess and undistributed income is also transferred directly to net assets attributable to unitholders.

o) Distributions

In accordance with the Scheme's Constitution, the Scheme fully distributes its distributable income to unitholders. Distributions are payable monthly. Such distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gain.

p) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Manager by third parties such as audit fees, custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RTIC) at a rate of 75% of GST.

Hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivable in the statement of financial position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

The GST component of cash flows arising from investing and financing activities recoverable or payable to the ATO is classified as an operating cash flow.

q) Applications and redemptions

Applications received for units in the Scheme are recorded when units are issued in the Scheme. Redemptions from the Scheme are recorded when the cancellation of units redeemed occurs. Unit redemption prices are determined by reference to the net assets of the Scheme divided by the number of units on issue.

Applications received in foreign currency denominations are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Foreign currency denominated unitholder funds are translated into the Scheme's functional currency at balance date, using the spot rate prevailing at that date. Gains and losses arising from foreign exchange translation are recorded in the Statement of Comprehensive Income in the period in which they arise.

r) Taxation

Under current legislation, the Scheme is not subject to income tax provided the distributable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

The price of a unit is based upon market values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax. Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

t) Capital management

The Manager manages the Scheme's net assets attributable to unitholders as capital, not withstanding net assets attributable to unitholders is classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Manager monitors the level or daily applications and redemptions relative to the liquid assets in the Scheme.

The Scheme is not subject to any externally imposed capital requirements.

u) Derivative financial instruments

The Scheme uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any gains and losses are arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to valuations provided by the financial institutions with which the forward exchange contracts are held.

v) Foreign currency translations

The Scheme's transactions in foreign currencies comprise applications and withdrawals of foreign currency unitholder funds and payment of distributions. Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liability denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date, and exchange rate gains and losses recognised in the Statement of Comprehensive Income.

w) Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liabilities settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

Refer to Note 17 to the financial statements for the methods and assumptions applied in determining fair value of each class of financial instrument.

3. INCOME AND DISTRIBUTIONS TO UNITHOLDERS

	2012	2011
	$	$
a) Distribution to unitholders		
Distributions paid/reinvested	16,454,382	13,628,205
Distributions payable	6,712,961	6,132,237
	23,167,343	19,760,442
b) Distributions paid and payable		
Class A	13,348,747	14,202,195
Class B	9,818,596	5,558,247
	23,167,343	19,760,442

"A" Class Units. The unit price for "A" Class Units is determined each day and is calculated by dividing the value of Net Assets of the Fund by total number of units on issue that day, but not taking account of any accrued interest distributions, only unpaid distributions.

"B" Class Units. The Unit Price for "B" Class Units is determined each day and is calculated by dividing the value of Net Assets of the Fund by total number of units on issue that day and taking account of relevant accrued but unpaid interest distributions.

4. EXPENSES

	2012	2011
	$	$
a) Finance costs		
Interest on related party loans	-	1,613,877
Other Interest expense	38,896	807
Interest expense	-	1,280,190
	38,896	2,894,874
b) Other expenses		
Auditor's remunerations	96,000	135,000
Other expenses	276,696	266,611
	372,696	401,611

5. AUDITOR'S REMUNERATION

	2012	2011
	$	$
Audit and review of the financial reports *	96,000	135,000
Other regulatory audit services	-	-
	96,000	135,000

These expenses have been included within 'Other Expenses' in the Statement of Comprehensive Income.
* The 2011 audit fee includes auditing the 1 July 2010 opening balances.

6. CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Movements in the net assets attributable to unitholders during the year were as follows:

	2012	2011
	$	$
Net assets attributable to unitholders		
Class A		
Opening balance	148,176,488	124,079,809
Units issued during the year	94,401,204	57,796,246
Units redeemed during the year	(21,552,072)	(27,683,775)
Units issued upon reinvestment of distributions	7,995,929	7,133,277
Closing balance	229,021,549	161,325,557
Class B		
Opening balance	100,435,541	52,130,959
Units issued during the year	35,790,807	64,341,038
Units redeemed during the year	(21,774,224)	(9,984,877)
Units issued upon reinvestment of distributions	8,860,872	4,600,088
Closing balance	123,312,996	111,087,208
Movement in changes net assets attributable to unitholders	821,808	(23,076,491)
Total assets attributable to unitholders	353,156,353	249,336,274

All unitholders are entitled to receive distributions as declared from time to time and are entitled to one vote per unit at unitholders' meetings. In the event of winding up of the Scheme, all unitholders rank after creditors and are equally entitled to the proceeds of liquidation.

7. INVESTMENTS

	2012	2011
	$	$
Investment in subsidiaries		
	-	-

The Scheme owned 100% of the issued share capital of:

	Country of Incorporation	2012	2011
Australian International Investment Services Pty Ltd	Australia	100%	100%
LM MPF Development No 1 Pty Ltd	Australia	100%	100%

8. LOANS AND RECEIVABLES

	2012	2011
	$	$
Secured mortgage loans - 1st priority	30,066,913	39,508,189
Secured mortgage loans - 2nd priority - related party	220,337,819	140,808,903
Secured mortgage loans - 2nd priority	55,630,371	43,199,029
Secured Loans - Related Party Charges	16,911,196	15,226,498
Provision for impairment	(23,375,992)	(18,000,000)
Net loans and advances	299,570,308	220,742,619

a) Aggregate amounts receivable from related parties

	2012	2011
	$	$
Directors and director-related entities - secured	234,253,745	153,138,704
Related managed investment schemes - secured	-	-
Related managed investment schemes - unsecured	-	-
Related property trust - secured	2,995,270	2,896,698
	237,249,015	156,035,402

The Director related entities are Special Purpose Vehicles through which all of the development profit flows through to the LM Managed Performance Fund and its investors. Each development asset has a SPV established for it to hold contractual participating interests in the underlying asset.

This structure ensures full benefit to the Fund and its investors and also provides important tax insulation. Through the "loan structure" referred to immediately above, the Fund makes a loan to the SPV on arms length terms with the ability to periodically assess the interest rate enabling the Fund to extract all the financial benefit that the SPV receives from the SPV's contractual participating interest in the underlying asset. The SPV is the borrower under that loan, and it grants a security interest to the Fund over the SPV's assets to secure its repayment obligations to the Fund. The security interest is also on arms length terms. Together the loan and security interest give the Fund the same level of control which any lender would have in similar circumstances with an unrelated borrower.

The fund is unable to own the property assets directly as this would result in onerous tax implications for offshore (non-Australian resident) investors. Special Purpose Vehicles (SPV) are setup to minimise risk, minimise tax implications for the Fund and investors and are a common structure for projects of this nature.

As with all registered companies there must be a Director of that entity that holds the ultimate liability and as such Peter Drake holds the liability through his Directorship of the Special Purpose Vehicles. Neither Peter Drake nor LM (in its corporate capacity) are entitled to any financial benefit by virtue of that shareholding or directorship. This is a feature of the “loan structure” and the Internal Rate of Return for the projects indicates that all the project profit will be received by the fund on behalf of its investors. The SPV structure is set solely to allow LM to control the decisions of the project, so as to enable the fund to achieve the full return of profits of the project. This is done via an assessed earnings rate, derived through extensive feasibility and discounted recovery analysis which is regularly updated and audited externally each year.

b) Maturity analysis - Secured Mortgage Loans

	2012	2011
	$	$
Impaired (net of provision)	-	14,858,226
Renegotiated/Restructured loans	30,066,913	51,423,842
Less than 3 months	56,325,624	856,683
3-6 months	-	15,226,499
6-12 months	213,177,770	138,377,369
	299,570,307	220,742,619

The above maturity analysis reflects the contractual maturity of all secured loans.

8. LOANS AND RECEIVABLES (Continued)

b) Maturity analysis - Secured Mortgage Loans (Continued)

Past due or mortgagee in possession loans are classified as either impaired or recoverable based on assessment of current market position as at date of the report. Past due status and actual recoverability of these amounts are not always mutually correlated. Recoverability is dependant on several factors and the Manager always seeks to maximise the return of these amounts through gross realisation workout strategies, enforcement of security and loan restructuring. The Manager has significant resources in-house dedicated to managing these assets to the best possible recovery position.

A provision of impairment was raised totalling $23.4 million against 6 loans which is based on current market assessments of recoverability of these loans. There has been no impact on unit price as this provision has been allowed for against the general earnings of the fund. The exit strategy on these loans will result in no impact on unit price as they are fully provisioned.

c) Concentration of risk

There are one (2011: two) counterparty with which the Scheme's credit exposure exceeds 10% of the net assets attributable to unitholders as at 30 June 2012. The total value of this loan, before taking into account collateral or other credit enhancements, is $201,187,254 (2011: $158,301,729).

For concentration of risk relating to mortgage type and geographical location refer to Note 16b.

d) Provisions for impairment

The impairment loss expense relating to loans and receivables comprises:

	2012	2011
	$	$
Specific provision		
Opening balance	18,000,000	1,952,000
Impairment losses provided for during the year	5,376,847	16,048,000
Impairment losses realised during the year	-	-
Closing balance	23,376,847	18,000,000
Total Provision for impairment	23,376,847	18,000,000
Changes to operating profit/(loss) before tax for impairment losses on loans and receivables comprises:		
Specific provision	5,375,992	16,048,000
Impairment losses recognised directly in Statement of Comprehensive Income	-	-
	5,375,992	16,048,000

A provision of impairment was raised totalling $23.4 million against 6 loans which is based on current market assessments of recoverability of these loans. There has been no impact on unit price as this provision has been allowed for against the general earnings of the fund. The exit strategy on these loans will result in no impact on unit price as they are fully provisioned.

9. INVESTMENT PROPERTIES

	2012	2011
	$	$
Balance at beginning of the year	5,526,886	19,045,680
Capitalised expenditure	312,111	386,206
Fair value adjustments	-	-
Disposals	-	(13,905,000)
Balance as end of the year	5,838,997	5,526,886

10. TAX

	2012	2011
	$	$
a) (i) The components of income tax expense are:		
Current tax expenses	-	730,475
Deferred tax	-	(1,234,155)
Income tax (benefit)/expense report in the Statement of Comprehensive Income	-	(503,680)
(ii) Reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate:		
Accounting profit before income tax	21,361,292	19,566,742
Income tax expense calculated at controlled entities statutory income tax rate of 30% (2011: 30%).	6,408,388	5,870,023
Income in the hands of the beneficiaries	(6,408,388)	(6,373,703)
	-	(503,680)
b) Deferred tax assets comprise:		
Tax losses	-	-
c) Deferred tax liability comprise:		
Fair value gain	-	-
d) Reconciliation		
Gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	-	(1,234,155)
(Charge)/credit to the Statement of Comprehensive Income	-	1,234,155
Closing balance	-	-

11. PAYABLES

	2012	2011
	$	$
a) Foreign currency awaiting investment	1,623,643	2,957,261
Commissions payable	508,002	713,087
Redemptions payable	313,170	3,728,478
Withholding tax payable	1	653,048
Income tax payable	-	942,761
Other payables	296,738	610,946
	2,741,554	9,605,581

	2012	2011
	$	$
b) Related parties loans *	9,917,992	10,093,089

The related party balance represents two loans where the LM First Mortgage Income Fund holds the senior debt position ahead of the MPF's security. The Manager is currently in due diligence discussions with offshore financiers to payout the First Mortgage Income Fund as part of their overall construction funding assessment for the MPF projects.

12. RELATED PARTIES

Manager

The Manager of LM Managed Performance Fund is LM Investment Management Limited (ABN 68 077 208 461). Administration and funds management services are provided to the Scheme on behalf of the Manager by LM Administration Pty Limited, as associate of the Manager. LM Administration Pty Limited is paid a management fee directly from the Scheme.

Custodian

The Custodian of the Scheme is The Trust Company (PTAL) Limited.

Directors

The names of each person holding the position of director LM Investment Management Limited during the financial year are disclosed in Note 15(a)(i).

Director' remuneration

No amounts are paid by the Scheme directly to the directors of the Manager. All remuneration was paid by LM Administration Pty Ltd appointed by LM Investment Management Limited as per its service agreement with that entity to directors of the Manager in connection with their responsibilities for the Scheme.

Directors' holding of units

There are no related party investments in the LM Managed Performance Fund.

Investing activities

The Scheme may purchase and sell units in other approved schemes or investment entities operated by LM Investment Management Limited or its associates in the ordinary course of business at application and redemption prices calculated in accordance with the constitutions of those schemes. At 30 June 2012 the Scheme had no investments in other schemes operated by LM Investment Management Limited or its associate (2011: nil).

12. RELATED PARTIES (Continued)

Other transactions with the Scheme

From time to time the directors of LM Investment Management Limited, or their director-related-entities, may invest or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors. Apart from the details disclosed in this note, no director has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving directors' interest subsisting at year-end. All transactions were approved on an arm's length basis and is on normal terms and conditions.

The Director related entities are Special Purpose Vehicles through which all of the development profit flows through to the LM Managed Performance Fund and its investors. Each development asset has a SPV established for it to hold contractual participating interests in the underlying asset.

This structure ensures full benefit to the Fund and its investors and also provides important tax insulation. Through the "loan structure" referred to immediately above, the Fund makes a loan to the SPV on arms length terms with the ability to periodically assess the interest rate enabling the Fund to extract all the financial benefit that the SPV receives from the SPV's contractual participating interest in the underlying asset. The SPV is the borrower under that loan, and it grants a security interest to the Fund over the SPV's assets to secure its repayment obligations to the Fund. The security interest is also on arms length terms. Together the loan and security interest give the Fund the same level of control which any lender would have in similar circumstances with an unrelated borrower.

The fund is unable to own the property assets directly as this would result in onerous tax implications for offshore (non-Australian resident) investors. Special Purpose Vehicles (SPV) are setup to minimise risk, minimise tax implications for the Fund and investors and are a common structure for projects of this nature.

As with all registered companies there must be a Director of that entity that holds the ultimate liability and as such Peter Drake holds the liability through his Directorship of the Special Purpose Vehicles. Neither Peter Drake nor LM (in its corporate capacity) are entitled to any financial benefit by virtue of that shareholding or directorship. This is a feature of the "loan structure" and the Internal Rate of Return for the projects indicates that all the project profit will be received by the fund on behalf of its investors. The SPV structure is set solely to allow LM to control the decisions of the project, so as to enable the fund to achieve the full return of profits of the project. This is done via an assessed earnings rate, derived through extensive feasibility and discounted recovery analysis which is regularly updated and audited externally each year.

Administration and funds management services are provided to the Scheme on behalf of the Manager by LM Administration Pty Limited, an associate of the Manager. LM Administration Pty Limited is paid a management fee for these services directly from the Scheme assets. Next years forecasted management fee is not expected to exceed a maximum of 5% per annum (exclusive of GST) of the net assets of the Scheme.

During the year, management fees of $11,368,182 (2011: $1,397,727) were expensed to the Scheme. All management fees are paid directly to LM Administration Pty Limited.

This represents 3.1% of average net assets of the Fund. This pre-planned increase in management fee is reflective in the growth of assets in the Fund and allows the Manager to employ additional resources required to properly manage those assets to the benefit of investors.

The Scheme has second mortgages on loans where the first mortgage of the LM First Mortgage Income Fund, totalling $60,281,381 (2011: $46,158,276). The Scheme may on occasion pay development and construction costs on those related loans. As part of its role as second mortgagee, LM Managed Performance Fund will fund interest payments from time to time within approved loan facility limits. During the 30 June 2012 year, interest payments totalling $715,999 (2011: $915,954) were paid by the Scheme on behalf of borrowers.

12. RELATED PARTIES (Continued)

Balance with related parties

	2012	2011
	$	$
Manager remuneration received or due and receivable		
- Management fees for the year paid or payable to LM Administration Pty Limited, which were expensed to the fund.	11,368,182	1,397,727
- Expenses included administration expenses incurred by the Manager and its associated entities, which are reimbursed in accordance with the provisions of the Constitution.	-	158,147

This represents 3.1% of average net assets of the Fund. This pre-planned increase in management fee is reflective in the growth of assets in the Fund and allows the Manager to employ additional resources required to properly manage those assets to the benefit of investors.

	2012	2011
Aggregate amounts receivable from related parties by the Group as follows:	$	$
- LM Administration Pty Limited (management and development management fees prepaid by the Scheme)*(i)*	20,752,639	5,167,310
- Peter Charles Drake *(ii)*	16,911,196	15,226,499
- LM Capalaba Pty Ltd *(iii)*	14,968,213	9,610,476
- Maddison Estate Pty Ltd *(iv)*	201,187,254	128,301,729
- Aalto Apartments Pty Ltd *(v)*	24,608,244	22,423,926
- Ekard Property Trust *(vi)*	2,995,270	2,896,698
Aggregate amounts payable from related parties by the Scheme as follows:		
- LM First Mortgage Income Fund	9,917,992	10,093,089

i) The Directors target a gradual paydown of this prepaid balance throughout the next financial year and as at date of this report, the balance had reduced to $17.7 million. These amounts are included in prepayments of $20,752,639 at 30 June 2012 (2011: $5,167,310). No amounts are payable to related parties by the Scheme, other than LM Administration Pty Ltd. The average monthly balance of prepayments during the year was $16,989,994 (2011: $3,617,404) which was non-interest bearing.

This prepaid management fee will be recovered through LM Administration Pty Limited's Agreement to offset future payable management fees or through the guarantee from a Director, Peter Charles Drake. This is documented and secured through a letter of undertaking outlining that the full balance is payable if LM Investment Management Ltd or its related entities are sold in part or in full.

An external report from an independent firm engaged in November 2012 assessed this full security holding at $107 million.

ii) As at 30 June 2012, the Fund had a loan receivable of $16,911,196 (2011: $15,226,499) from Peter Charles Drake, a director of the Manager. The loan is secured by a charge over LM Administration Pty Ltd in its own right and as trustee for the Ekard Property Trust, and by a charge over Century Star Investments. Century Star Investments is a shareholder of LM Investment Management Limited with a 50% stakeholding. An external report from an independent firm in November 2012 assessed this security holding at $54 million (50% of assessed total of $107 million). Interest on this loan is fully serviced monthly.

Operating EBIT of these two entities combined was a $11.0 million EBIT profit for the year ended 30 June 2012 (2011: $7.1 million). Operating EBIT forecast of these entities for the 2013 financial year is forecasted at $8.8 million.

12. RELATED PARTIES (Continued)

Balance with relted parties (Continued)

iii) LM Capalaba Pty Ltd – this entity is a related party loan secured through a second mortgage over real property of which a joint venture agreement is currently in place stipulating a minimum interest return to the scheme. The Manager is currently in due diligence discussions and has received a conditional letter of interest from an offshore financier overall including the assessment of payout of the facility with the LM Australian Income Fund and financing the full construction of the project to completion.

iv) Maddison Estate Pty Ltd (formerly LM Arrowtown Pty Ltd) – this entity is a related party loan secured over the assets of Maddison Estate Pty Ltd. Maddison Estate Pty Ltd controls the actual landholder of the subject real property Coomera Ridge Pty Ltd via contractual rights.

Suncorp loan facility:
Maddison Estate Pty Ltd, a related party, has a current Suncorp loan facility of $22,046,134. The facility has been varied, amended or restated on various occasions since 21 January 2008.

Suncorp have extended the loan facility to 31 March 2013 conditional on an amortised paydown to $18 million by that date. The Manager is currently in due diligence discussions and has received a conditional letter of interest from an offshore financier to fully repay the Suncorp facility on March 31, 2013 and also finance the full construction of the project to completion.

v) Aalto Apartments Pty Ltd – this entity represents a financial asset to the scheme based on the contractual right to receive cash. This receivable is contingent on certain events and the entity is a related party. AIIS Pty Ltd will be the actual recipient of the cash proceeds which is a wholly owned entity of the scheme. The scheme also holds a second mortgage security over the real property assets of AIIS Pty Ltd. The Manager is currently in due diligence discussions and has received a conditional letter of interest from an offshore financier overall including the assessment of payout of the facility with the First Mortgage Income Fund and financing the full construction of the project to completion.

vi) Ekard Property Trust – this entity is a related party loan secured through a second mortgage over real property. The property is currently on the market and a current offer to fully recover the loan is being negotiated for contract signing as at date of this report. The offer will constitute a full recovery of the existing loan balance in the fund.

13. RECEIVABLES

	Note	2012	2011
		$	$
Mortgage loan interest receivable		2,202,839	1,590,989
Receivable from related parties	12(v)	23,421,162	22,425,473
Settlements receivable		291,057	1,936,966
GST receivable		-	132,416
Income tax receivable		395,440	-
Other receivables		11,731	-
		26,322,229	26,085,844

14. CASH AND CASH EQUIVALENTS

a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash and cash equivalents comprise:

	2012	2011
	$	$
- Cash at bank and in hand	17,287,984	19,492,224

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.
The fair value of cash and cash equivalents is $ 17,287,984 (2011: $ 19,492,224).

As at 30 June 2012, $ 14,459,269 (2011: $10,463,632) of cash at bank was held in foreign exchange margin accounts and was not available for use by the Scheme.

b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities

	2012	2011
	$	$
Change in net assets attributable to unitholders	(1,806,051)	309,980
Adjustments for:		
Non-cash impairment expense	5,376,847	16,047,075
Interest income	(60,661,058)	(47,740,840)
Distributions to unitholders	23,167,343	11,729,197
Revaluation of property	-	-
(Profit)/Loss on disposal of property	-	(8,145,634)
(Gains)/loss on foreign exchange contracts	10,713,423	5,930,403
(Gains)/loss on investor funds	1,903,614	(22,423,197)
(Increase)/decrease in trade and other receivables	226,121	1,399,263
(Increase)/decrease in prepayments	(19,736,173)	(4,588,144)
Increase/(decrease) in payables	(3,448,719)	3,384,579
Net cash flows from/(used in) operating activities	(44,264,653)	(44,097,318)

c) Reinvestment of distributions

During the year, the Scheme issued $23,167,343 worth of units (2011: $ 11,729,197) as a result of reinvestment of distributions by unitholders. These transactions have not been included in the Statement of Cash Flows.

15. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

(i) Key Management Personnel

They Key Management Personnel ("KMP") of the Scheme were deemed to be the Directors of the Manager. The Directors of the Manager during the year were:

Executive directors	
Mr Peter Charles Drake	Appointed 31 January 1997
Ms Lisa Maree Darcy	Appointed 15 September 2003 . Resigned on 12 June 2012
Mr Eghard van der Hoven	Appointed 22 June 2006
Ms Francene Maree Mulder	Appointed 30 September 2006
Mr John O'Sullivan	Appointed 27 November 2007. Resigned on 19 September 2012
Mr Simon Tickner	Appointed 16 December 2008. Resigned on 13 July 2012
Mr Grant Fischer	Appointed 14 March 2012 . Resigned on 12 August 2012
Ms Katherine Phillips	Appointed on 13 July 2012

15. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

b) Compensation of Key Management Personnel

(i) Compensation Policies and Principles

Remuneration of KMP is paid by LM Administration Pty Limited, appointed by LM Investment Management Limited as per its service agreement with that entity. The KMP do not receive any remuneration directly from the Scheme and there are no agreements in place between the KMP and the Scheme. The remuneration of KMP as disclosed below has been allowed based on each of the KMP's cost of remuneration applicable to the Scheme. No remuneration has been allocated to the LM Managed Performance Fund for the year ended 30 June 2012. The principles used to allocate these costs in future financial years (for disclosure purposes only) are discussed below.

(ii) Executive Directors

The Executive Directors of the Board of Directors of LM Investment Management Limited are responsible for determining and reviewing compensation arrangements for the KMP of the Manager. The Executive Directors assess the appropriateness of the nature and amount of emoluments of the KMP on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Manager.

It is the Executive Directors' policy that employment agreements shall only be entered into with the Executive Directors of the Manager, but with no other parties.

(iii) Non-executive Directors

Fees paid to non-executive directors are based on decisions made by the Executive Directors. This take into account workload requirements and responsibilities of each Director. Fees for duties as Directors are not paid to executive Directors as their remuneration is provided as part of their normal terms and conditions.

b) Compensation of Key Management Personnel

(iv) Principles of KMP Remuneration Allocations

For all schemes managed by the Manager, the cost of total KMP remuneration has been allocated to each scheme. No remuneration has been allocated to the LM Managed Performance Fund for the year ended 30 June 2012. The Manager will estimate the amount of time spent by each KMP performing responsibilities and duties to individual schemes, and on a percentage basis, allocate the remuneration cost to each scheme. Where a KMP has not spent time specifically on a scheme, but rather has acted in a role as KMP of the Manager only, remuneration cost will be allocated evenly across all schemes.

Loans to specified KMP

The Scheme has not made, guaranteed or secured, directly or indirectly any new loans to the KMP or their related entities during the period. The existing loan made to Peter Drake is disclosed under Note 12.

c) Other transactions and balances with specified KMP

Other than those items disclosed in the related party Note 12, the Scheme has no other transactions and balances with specified KMP.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

a) Financial Risk Management Objectives, Policies and Processes

Risks arising from holding financial instruments are inherent in the Scheme's activities, and are managed through a process of ongoing identification, measurement, and monitoring. The Scheme is exposed to credit risk, liquidity risk, and market risk.

Financial instruments of the Scheme comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Manager is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Scheme from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Manager. These mandate limits reflect the investment strategy and market environment of the Scheme, as well as the level of risk that the Scheme is willing to accept.

This information is prepared and reported to relevant parties within the Manager on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management, Risk and Investment Committees, and ultimately the Board of Directors of the Manager.

As part of its risk management strategy, the Scheme uses foreign exchange contracts to manage exposures resulting from changes in foreign currencies.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, and other conditions.

In order to avoid excessive concentrations of risk, the Scheme monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces the exposure or uses derivative instruments and collateral to manage the excessive concentrations when they arise.

b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in value, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

b) Credit Risk (Continued)

The Scheme minimises credit risk by:
- undertaking credit assessment procedures on prospective borrowers;
- dealing with Australian regulated banks for cash balances; and
- obtaining independent valuations for all new loans.

As at year end 11.47% (2011: 13.48%) of the mortgage loans were secured by Commercial projects and Retail 0.80% (2011: 2.69%) and Residential 87.58% (2011: 80.23%) and Industrial 0.15% (2011: 3.60%).

The carrying amount of renegotiated loans which would have been past due or impaired at 30 June 2012 was $30,066,913 (2011: $51,423,842).

Risk concentrations of credit risk

Concentrations of credit risk are managed by counterparty and by geographical region. The percentage of loans secured by property in different geographical locations is as follows:

	2012	**2011**
Australian Capital Territory	0.37%	0.00%
New South Wales	17.06%	23.62%
Queensland	74.98%	66.68%
Victoria	1.07%	3.79%
Western Australia	6.52%	5.91%
Total	100%	100%

The maximum credit risk exposure at year end in relation to mortgage loan is the carrying value of the assets as indicated in the Statement of Financial Position.

The Scheme has a concentration of credit risk relating to the derivative instruments as all foreign currency swaps are entered into with the four counterparties.

Credit quality of mortgage loans

The credit quality of financial assets is managed by the Scheme using internal risk rating categories in accordance with the investment mandate of the Scheme. The Scheme's exposure in each category is monitored on a daily basis. This review process allows the Manager to assess the potential loss as a result of risks and take corrective action.

As at 30 June 2012, the Scheme was mortgagee in possession of security of $76,702,039 (2011: $71,654,937) and taken possession of assets offered as collateral security valued at $96,677,404 (2011: $78,333,069).

Past due or mortgagee in possession loans are classified as either being impaired or recoverable based on assessment of current market position as at date of the report. Past due status and actual recoverability of these amounts are not always mutually correlated. Recoverability is dependant on several factors and the Manager always seeks to maximise the return of these amounts through gross realisation workout strategies, enforcement of security and loan restructuring. The Manager has significant resources in-house dedicated to managing these assets to the best possible recovery position.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

c) Liquidity risk

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unitholder redemptions.

The nature of the investments entered into by the Scheme commands that liquidity be managed cautiously and aligned to the redemptions policy outlined within the constitution of the Scheme. At 30 June 2012, the redemptions requested from unitholders but not paid was $12,733,976 (2011: $14,886,335). This amount equates to 3.6% (2011: 6.0%) of the funds under management at that date.

As at 13 November 2012, $23,727,275 (2011: $21,274,377) of redemptions had been requested by unitholders, which equates to 6.3% of funds under management and is within the normal percentage parameters of redemptions at any one time as determined by the manager.

During the period, the Manager continued to progress with the various development aspects specific to the underlying assets and balance the cash needs of that asset development with the ongoing payment of investor redemptions.

Significant progress has been made across both areas. A number of the assets are now at the point of presales and commencement of construction, and will return liquidity to the Fund through sales from 2013 onwards.

The MPF has continued to pay investor redemptions. From a high of just under 40%, fund redemptions now measure at less than 6% of Funds Under Management.

Looking forward, the Fund is now moving into a more liquid position as cash variables in the form of loan repayments are realised. New investor inflows will always remain a variable; however the fund portfolio management model forecasts actual loan repayments and capital from the sale of assets increasing significantly from the end of the 1st quarter of 2013. As such, the Directors forecast the MPF liquidity to be operating within normality by the middle of 2013. The Directors are aware that many investors have an immediate need for cash, and we are actively pursuing initiatives on several fronts which, should they come to fruition, will see the Fund make a considerable catch up on redemptions early in 2013. The prime objective of the fund continues to be to maintain investor capital and achieve the targeted outperformance. The Fund has achieved that objective and to date the Fund has declared investor returns at or above target of 3.00%pa - 5.00%pa over cash rates whilst maintaining full capital value.

The Manager employs risk management strategies to ensure that the Scheme is able to meet its obligations as above. The liquidity risk associated with the need to satisfy unitholders requests for redemptions are mitigated by offering fixed term investment periods for investors and by maintaining sufficient cash funds to satisfy usual levels of demand for at-call investments.

In order to minimise liquidity risk, management assesses and monitors the liquidity requirements of both unitholder redemptions and investment activities and ensures that at all times the Scheme has adequate cash and cash equivalents to cover fund obligations and that liquidity is managed within the Scheme's policies and limits.

Maturity Analysis of Financial Liabilities

Financial liabilities of the Group comprise trade and other payables, distributions payable, net assets attributable to unitholders, fair value of foreign exchange contracts and other borrowings. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days. Foreign exchange contracts mature within 12 months of year end.

Net assets attributable to unitholders mature over the following periods:

	2012	2011
Due and payable	313,171	3,728,478
< 12 months	215,556,336	200,269,647
12-24 months	72,495,438	23,526,400
24-36 months	75,111,392	46,326,236
36-48 months	3,155,129	939,757
> 48 months	17,004,891	2,585,767
Total	383,636,357	277,376,286

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis.

The Scheme's exposure to interest rate risk and the effect weighted average interest rate for classes of financial assets and financial liabilities is set out below:

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Market risk (Continued)

GROUP

	Note	Weighted average interest rate		Floating interest rate		Fixed interest rate					
						Securities contracted to mature in less than 1 year		Securities contracted to mature in more than 1 year but less than 5 years		Total	
		2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Cash and cash equivalents		2.39	2.26	17,287,984	19,492,224		-		-	17,287,984	19,492,224
Secured mortgage loans (gross)		17.67	21.48	-	-		55,568,018		129,623,576	-	185,191,594
Unsecured loan				-	-	299,570,307	220,742,619	-	-	299,570,307	220,742,619
Loan facility				-	-	-	-	-	-	-	-
Total				17,287,984	19,492,224	299,570,307	276,310,637	-	129,623,576	316,858,291	425,426,437

All other financial assets and liabilities are non-interest bearing.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Market risk (Continued)

The following table demonstrates the sensitivity of the Scheme's Statement of Comprehensive Income to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on the interest income for one year, based on the financial instruments held at 30 June 2012.

Accounting assumptions

The basis points sensitivity is based on the historical volatility of changes in interest rates.

2012

	Change in basis points		Sensitivity of interest income ($000's)	
	Increase	*Decrease*	*Increase*	*Decrease*
Financial Instruments	50	50	1,831	(1,831)
	100	100	3,662	(3,662)

2011

	Change in basis points		Sensitivity of interest income ($000's)	
	Increase	*Decrease*	*Increase*	*Decrease*
Financial Instruments	50	50	1,183	(1,183)
	100	100	2,366	(2,366)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Scheme enters into foreign exchange contracts principally to hedge the foreign exchange risk implicit in the value of the investor funds denominated in foreign currencies and to secure a particular exchange rate for a planned purchase or sale of investments. The term of the contracts rarely exceeds twelve months.

The fair value of forward exchange contracts held at 30 June 2012 was $ 4,216,790 (2011: $4,670,351).

The nominal Australian dollar value of forward exchange contracts held at 30 June 2012 was $ 299,589,159 (2011: $281,808,635).

The table below indicates the currencies to which the Scheme had significant exposure at 30 June 2012 on its monetary assets and liabilities and forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Australian Dollar on the Statement of Comprehensive Income, with all other variables held constant.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency

Investments in the fund are hedged in the relevant currency against Australian dollar currency movements. The fund manages foreign currency risk through the use of forward foreign exchange contracts (FFEC).

The FFECs are facilitated by several banking firms. This reduces currency exposure to the fund and investors. The below table is only applicable if the FFEC facilitator is unable to meet its obligation and the fund therefore seeks an alternative party to transact the FFEC.

Accounting Assumptions - Variability of foreign currency

The sensitivity is based on the volatility of changes in global currency.

	2012				
Currency	AUD equivalent in exposure by currency (000's)	Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	*Decrease*	*Increase*	*Decrease*
AED	2,856	10	10	285	(285)
CAD	2,731	10	10	273	(273)
CHF	1,332	10	10	133	(133)
EUR	40,637	10	10	4,064	(4,064)
GBP	179,392	10	10	17,663	(17,663)
HKD	917	10	10	92	(92)
JPY	2,699	10	10	270	(270)
NOK	147	10	10	15	(15)
NZD	2,172	10	10	217	(217)
SEK	1,628	10	10	163	(163)
SGD	1,660	10	10	166	(166)
THB	3,639	10	10	364	(364)
TRY	14,870	10	10	1,487	(1,487)
USD	42,957	10	10	4,296	(4,296)
ZAR	1,953	10	10	195	(195)

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Accounting Assumptions - Variability of foreign currency (Continued)

	2011				
Currency	AUD equivalent in exposure by currency (000's)	Change in currency rate in %		Effect on net assets attributable to unitholders (000's)	
		Increase	*Decrease*	*Increase*	*Decrease*
AED	1,140	10	10	(31)	32
CAD	2,038	10	10	(188)	224
CHF	601	10	10	(55)	61
EUR	31,732	10	10	(2,577)	2,840
GBP	113,218	10	10	(9,538)	11,221
HKD	783	10	10	(340)	348
JPY	3,776	10	10	(7,310)	7,369
NZD	1,993	10	10	(227)	247
SEK	402	10	10	(248)	249
SGD	1,866	10	10	(199)	221
THB	2,562	10	10	(2,181)	2,219
TRY	11,758	10	10	(1,069)	1,306
USD	29,392	10	10	(2,822)	3,193
ZAR	1,484	10	10	(973)	977

Equity Risk

The Scheme is not subject to equity risk at 30 June 2012.

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Scheme's financial assets and liabilities included in the Statement of Financial Position are carried at their fair value as disclosed by class of financial instruments or at amounts that approximate their fair values.

Refer to Note 2 for the methods and assumptions adopted in determining fair values for investments.

Disclosed below is the fair value of the Scheme's financial instruments.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Fair value: The Scheme uses various methods in estimating the fair value of a financial instrument. The methods comprise:
Level 1 - the fair value is calculated using quoted prices in active markets;
Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

	Fair Value				**Carrying Amount**
2012	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**	**$**
Financial Assets					
Forward currency contracts					
Total Financial Assets					
Financial Liabilities					
Forward currency contracts		4,216,790		4,216,790	4,216,790
Total Financial Liabilities		4,216,790		4,216,790	4,216,790

	Fair Value				**Carrying Amount**
2011	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**	**$**
Financial Assets					
Forward currency contracts					
Total Financial Assets					
Financial Liabilities					
Forward currency contracts		4,670,351		4,670,351	4,670,351
Total Financial Liabilities		4,670,351		4,670,351	4,670,351

The fair values of currency exchange contracts (forwards and swaps) are calculated by reference to current exchange rates for contracts with similar maturity and risk profiles.

18. COMMITMENTS AND CONTINGENCIES

There are no material contingent assets and liabilities or commitments as at 30 June 2012.

19. EVENTS AFTER THE STATEMENT OF BALANCE DATE

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2012 or on the results and cash flows of the Scheme for the year ended on that date, other than those detailed below:

20. PARENT ENTITY INFORMATION

a) Summary of financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Statement of financial position

	2012	2011
	$	$
Total Assets	367,876,033	271,937,884
Total Liabilities	14,088,647	21,732,020
Net Assets attributable to unitholders	353,787,386	250,205,864
Total units on issue at year end	356,367,645	249,968,345
Undistributed income/(excess distribution)	(1,744,892)	924,938
Changes in net assets attributable to unitholders	(1,744,892)	924,938
Total comprehensive income	(1,744,892)	924,938

b) Guarantees entered into by the parent company

The parent entity has provided limited financial guarantees to a related party investment scheme on 2 loans which is limited to the payment of interest only during the financial year ended 30 June 2012.

c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012.

d) Contractual commitments

The parent entity did not have any contractual commitments as at 30 June 2012.

LM MANAGED PERFORMANCE FUND

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of LM Investment Management Limited, I state that:

a) The financial statements and notes as set out on pages 6 to 36 are in accordance with the *Corporations Act 2001*, and:

   (i) complying with Accounting Standards and the Corporations Regulations 2001; and

   (ii) giving a true and fair view of the Scheme and the consolidated group's financial position as at 30 June 2012, and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and

   (iii) the financial statements and notes to the financial statements are prepared in compliance with the International Financial Reporting Standards as made by the International Accounting Standards Board.

b) There are reasonable grounds to believe that the Scheme and the consolidated group will be able to pay its debts as and when they become due and payable; and

c) The financial statements are in accordance with the provisions of the Scheme's Constitution.

On behalf of the Board
LM Investment Management Limited

Peter Drake
Director

Gold Coast
Date: 7th day of December 2012

LM MANAGED PERFORMANCE FUND
ABN 95 595 833 174
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF LM MANAGED PERFORMANCE FUND AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of LM Managed Performance Fund (the Scheme) and Controlled Entities (the Consolidated Group) which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated group comprising the Scheme and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report
The directors of the Responsible Entity of the Scheme are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 2, the directors also state, in accordance with AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given the directors of the consolidated group a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

LM MANAGED PERFORMANCE FUND
ABN 95 595 833 174
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF LM MANAGED PERFORMANCE FUND AND ITS CONTROLLED ENTITIES

Auditor's Opinion
In our opinion:

a. the financial report of LM Managed Performance Fund and its controlled entities is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the Scheme's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

WILLIAMS PARTNERS
INDEPENDENT AUDIT SPECIALISTS

Reg L Williams

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REG L WILLIAMS BCom CPA RCA
PARTNER
Registered Company Auditor No. 165400

Dated this 7th day of December 2012

4 Helensvale Road
Helensvale Qld 4212
Australia