

17th June 2009

Committee Secretary

Parliamentary Joint Committee on Corporation And
Financial Services

PO Box 6100
Parliament House

Canberra ACT 2600, Australia

Dear Secretary,

Submission to Joint Committee

My wife and I retired in 2002 and became self funded retirees having
Invested \$880,000 of our SMSF in MFS Premium Income Fund at 9%.

This investment was presented to us as a low risk fund which only
advanced loans on first mortgage security at 66% of valuation and then
insured by Lloyds of London for two thirds of the loan advanced.
Perpetual Nominees, as Custodian of the Fund securities was also
mentioned as an assurance of security.

Before committing our funds with the MFS representative, Mr Ian
Zelinski, we told him of our concerns regarding having “so many eggs in
one basket” to which he explained that the Fund was so large and
diversified that even if a few of it’s loans defaulted it would make
negligible difference to our investment. This may have been truthful at
the time if the Fund had been administered by honest and competent
people having regard for the law and P.D.S. So much for his assurances
as we received our last distribution on 10th February 2008 when the Fund
was “frozen” to redemptions and distributions.

A \$50m support facility set in place for such an event was, in fact, not
able to be accessed.

The collapse of the PIF was not a consequence of the global financial
crisis, as we now know that the directors of the parent Company, MFS,
mortgaged our entire Fund for approximately \$200m to the Royal Bank
of Scotland late in 2007.

When the funds were paid into the Premium Income Fund they were withdrawn by the directors and transferred to various satellite companies of MFS in which the directors had interest. This was certainly not in the best interests of unit holders of the PIF. The Fund had by now breached its covenants and the loan was called up by the RBOS causing the freezing of the Fund.

We were still being assured by MFS representatives that all was well and not to worry. We approached Perpetual Nominees to be told there was nothing they could do as they only registered the unit holders and issued the monthly distributions. So much for being Custodians in the understood sense of the word.

Where was the ex - ASIC Compliance Officer when all these transactions took place?

In May 2008 our Fund was placed in the hands of Ms Jenny Hudson of Wellington Capital of Brisbane under dubious arrangements.

At investor meetings conducted by Ms Hutson we were told that our units had deteriorated to .45c in the \$1, but that she would return them to full value in 3-5 years. She also promised a .3c per unit payment by 24th December 2008 and then quarterly thereafter. These payments have not been forthcoming.

Hundreds of letters have been written by unit holders and forwarded to the "Corporate Watchdog" ASIC requesting assistance but so far they have shown no interest and in most cases did not even reply. Of the 10,400 unit holders in the Fund most are elderly and relied on the dividends, but now feel cheated by the directors and totally let down by the regulators.

Unit holders had been threatened by Ms Hutson that she would place the Fund into liquidation indicating a return of only .14c per unit unless investors voted to change the constitution to cancel future redemptions and other measures biased towards the RE.

We and other members of the PIF Initiative Action Group campaigned and voted against the constitutional changes, however were out voted by a majority of gullible and uninformed unit holders who did not consider the consequences of their vote. Today there would be few who do not regret that decision.

Under the changes to the constitution investors will never be able to redeem any of the \$300m - \$400m remaining in the Fund. It is locked away for the convenience of the RE to draw what ever fees and charges they wish. It is time Wellington Capital as R.E of our Fund was bought to account. At present there seems to be no accountability or transparency and little communication.

Some time ago my local Federal MP contacted Senator the Hon. Nick Sherry to prompt ASIC in to action on our behalf. The reply was to contact the Financial Ombudsman Service who could investigate the matter. The FOB explained that they could only look at cases up to \$150,000. Any amount over that would require the approval of the company being investigated! Obviously no action was taken.

I wonder if Police intending to investigate drug dealers and bikie gangs need their prior approval to be investigated!

At the end of your enquiry you may find that there are adequate laws and regulations in place, but unfortunately there is no one interested in policing them.

In the mean time, we, and many thousands of self-funded retirees are now relying on a pittance of a pension from Centrelink.

The only avenue to retrieve some of our funds is to sell our units on the NSX for as little as 5.6c in the \$1. At present this avenue has dried up, as there are no more buyers.

We obtained extensive legal opinions involving the down fall of the Premium Income Fund and all agree it was bought about by the fraudulent behaviour of the former directors of MFS, some of who have fled over seas.

It seems crime does pay!

Geoffrey Ian Hobbs
Committee Member Premium Income Fund Initiative