

Octaviar fund is a sick dog that needs to be put down

THE Octaviar Premium Income Fund (PIF) has thousands of hapless unitholders stuck in limbo, many of whom are simply looking to close the door on a frightfully mismanaged property vehicle.

The fund itself is in dire straits, with new managers Wellington Capital estimating that it will return 14c in the dollar if it is liquidated, although there has been no independent substantiation of that valuation.

Investors have been largely kept in the dark and have had redemptions frozen in what they thought was a fairly safe, income-producing investment. Understandably, they cannot muster the faith required to back a new manager with an uncertain, opaque five-year recovery plan.

The fund is a sick dog that

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needs to be put down, not kept on life support to generate fees for the new manager.

Wellington claims that if the fund were to recover debts from the previous manager's parent, Octaviar, an additional 20c per unit could be achieved.

The chances of winning the case are impossible to ascertain given the dearth of information provided by the new manager, but one can imagine how hard it will be to retrieve funds from the struggling Octaviar.

In any event, the potential court proceedings are not a reason to

keep the fund operating — a liquidator could just as easily manage them as part of the winding up process.

Wellington's plans include a possible listing on the National Stock Exchange, a small but interesting exchange that lists a number of small but interesting entities.

The PIF would be thinly traded on any exchange, especially the NSX, because it is such a basket case. As a vehicle to assist investors to exit the fund, it would simply guarantee a price that would be well below the fund's net asset value, which is a substantially inferior option to winding up the fund.

How did Wellington become the manager anyway? One would think that after selling 65 per cent

of the Stella Group, Octaviar (previously MFS) had little in the way of income-producing assets left on its books.

The jewel in the crown was its funds management business and the single largest ongoing contributor to profit (that is, excluding proceeds from the asset sell-off that was forced upon it).

Clearly, Octaviar's funds management business was a major asset and its sale to Wellington dramatically changed the nature of Octaviar's business.

Astonishingly, though, Octaviar did not seek shareholder approval, nor did it explain to shareholders why the yet-to-be-determined price it will obtain is almost at the sole discretion of the purchaser.

The Australian Securities Exchange could not adequately ex-

plain why it waved the transaction through without demanding a shareholder vote, which is a sad indictment at a time when the supervisor is already heavily criticised. The fund itself has had its constitution changed a number of times over the past few years. Predictably, Octaviar's amendments were made without unitholder approval.

The constitution will need further revision if it is to become a closed-end listed property trust on the NSX.

Wellington should show a little faith of its own by submitting its plans, along with a voluntary wind-up option, to a unitholder vote.

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