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Business

Investors tried to redeem funds

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September 14, 2010

THOUSANDS of investors in the Premium Income Fund have been unable to redeem their cash since MFS, the failed group that once managed it, suspended redemptions in January 2008.

But the clients of the advisory firm Avenue Capital, where an MFS director worked, tried to get out of it days before the fund was frozen, the NSW Supreme Court heard yesterday.

Between January 21 and January 29, 2008, Avenue Capital clients made \$26 million worth of redemption requests.

An adviser and director at Avenue Capital, Paul Manka, was also a director of MFS Ltd at the time and a member of the MFS board's finance and investment committee.

Under examination by Adam Bell, SC, for the MFS liquidator, Kate Barnet of Bentleys Corporate Recovery, Mr Manka told the court he had nothing to do with Avenue's decision to advise clients to redeem their funds then.

"I was overseas at the time. I think it was a decision made by the Avenue Capital board, as a result of the collapse of the MFS share price," Mr Manka said. He said he did not participate in the board decision and did not own any units in the fund.

MFS changed its name to Octaviar and collapsed later that year owing creditors about \$2.4 billion and with inter-company loans of \$1 billion.

The fund is now managed by Wellington and a dispute over some of the redemptions is due to be heard in the Federal Court in December.

Mr Bell also asked Mr Manka about MFS's solvency in late 2007.

A balance sheet and financial statement until October 31, 2007 showed that, excluding the Stella tourism group of companies, there was a deficiency of assets and MFS had made a \$19 million net loss for the previous four months. Mr Manka said the figures did not concern him as MFS usually made money in the second half of the financial year.

Mr Bell said earnings of \$25 million from MFS's aged-care operation were in fact a \$25 million revaluation of the aged-care group, made on October 31. Likewise, tens of millions of dollars in earnings for other MFS businesses were revaluations made that day.

Mr Manka said that in January 2008, he and the rest of the board accepted the advice of corporate recovery specialist Mark Korda that the group was solvent.

Mr Korda is to be examined today. Bentleys also announced yesterday that it had completed the sale of 20 Sunkids Children's Centres in Queensland and Victoria, previously owned by MFS, for more than \$32 million.