HFA Holdings Limited

MCN restructure and Capital Raising

26 June 2014

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Overview and rationale

Overview

- HFA Holdings Limited ("HFA" or "Group") has entered into an agreement to buy-back all of the 50 Mandatory Convertible Notes ("MCNs") ("Buy-Back") on issue to APH HFA Holdings, LP, an affiliate of Apollo Global Management, LLC (together with its consolidated subsidiaries, "Apollo")
- Each repurchased MCN will be bought back at its initial face value of US$1 million (US$50 million in total), and Apollo has agreed to waive interest accrued between the original issue date of 7 March 2011 and immediately prior to completion of the Buy-Back on or about 3 July 2014 ("Buy-Back Completion")
- As a part of the Buy-Back, Apollo has agreed to conclude its broader strategic alliance with HFA and the right of first refusal arrangements that Apollo holds over HFA employee shareholdings will be cancelled
- The Buy-Back will be funded from:
  - fully underwritten placement to eligible institutional investors to raise approximately A$16 million ("Capital Raising"), and
  - existing cash held by HFA
- Together, the Buy-Back and the Capital Raising comprise the Transaction
- On completion of the Buy-Back, 25 MCNs will remain on issue. The accrued interest on those MCNs has been waived by their holder in consideration for certain amendments to their terms. A summary of the amendments to the terms is provided on page 3
- Options held by the MCN holders will also be cancelled (for nil consideration)
- The Westpac senior lending facility terms will be amended to include a US$5m repayment of debt at Buy-Back Completion, and an increase in annual loan repayments from US$2m to US$7.5m

Rationale

- Materially accretive (>25%) to HFA's diluted EPS in FY15 (excluding one-off impacts of the Transaction) – refer to page 8 for further detail
- Achieve a more flexible capital structure for HFA, including elimination of its obligations to potentially issue approximately 67.9m shares due to:
  - buy-back of the 50 MCNs (62.3m shares)
  - Waiver of interest on the remaining 25 MCNs (5.6m shares)

  offset by 17.8m new shares issued as a part of the Capital Raising
- Provides a pathway to greater financial flexibility, including with respect to dividend policy – refer to page 3 for further detail
- Conclude the Apollo strategic alliance which has fulfilled the purpose of helping to strengthen HFA's financial position and provided access to new distribution relationships

Summary of amendments to terms for the remaining 25 MCNs

In consideration for the waiver of the capitalised interest (US$5.4m) on the remaining 25 MCNs, the following revised terms will come into effect at the same time as the Buy-Back Completion:

Cash interest	Interest will be payable in cash at the end of each fiscal quarter, with the first payment due on 30 September 2014 Interest rate will increase from 6% per annum to 8% per annum
Call option over 15 MCNs	HFA will have call options (but no obligation) to repurchase 15 of the remaining 25 MCNs in cash, for a face value of US$1m per MCN, in the following tranches (subject in certain cases to the prior consent of Westpac): ▪ no less than 10 MCNs by 31 December 2014 (ie. for US$10m if 10 MCNs are purchased) ▪ the balance of the 15 callable MCNs (if any), by 31 December 2015 (ie. for US$5m if 5 MCNs are repurchased) If HFA exercises the call options, 10 MCNs will remain on issue If HFA does not repurchase at least the number of MCNs required by these dates, the interest rate in relation to all outstanding MCNs will increase by 2% per annum each six months if the repurchase then remains outstanding and while it does so (such stepped up interest rate is capped at a maximum interest rate of 12% per annum)
Covenants	Covenants (equivalent to those currently held by Apollo) will be provided to the holder of the remaining 25 MCNs as per the table below
Conversion rights and obligations continue	MCNs will continue to be convertible into HFA shares at any time by the holder, and are mandatorily convertible at maturity in March 2019 On 7 March 2015, and each date 6 months thereafter, HFA may convert MCNs provided that the volume weighted average sale price of HFA Shares for the 30 trading day period prior is in excess of 20% greater than the conversion price of US$0.9766 The holder of the MCNs will have no rights to elect to repurchase or cancel the MCNs for cash
Transfer	On Buy-Back Completion, the remaining 25 MCNs will be transferred from the existing holder (PA HFA Holdings, L.P. (PAHFA)) to another entity under the same majority beneficial ownership (WLR-SC HFA, LLC (WLR-SC))

Covenants	16 or more MCNs on issue	11 to 15 MCNs on issue	10 or less MCNs on issue
Nominee directors	3	Nil	Nil
Positive covenants *(Board observer and information rights if no directors on the board)*	Yes	Yes	No
Negative covenants *(Existing pre-approval rights)*	Yes	No	No

Sources and uses of funding

Sources of funds	(US$ million)
Cash balance[1]	41.7
Gross placement proceeds[2]	14.4
Total	**56.1**

Expected uses of funds	(US$ million)
Repurchase of 50 MCNs	50.0
Repayment to Westpac	5.0
Estimated Transaction costs	1.1
Total	**56.1**

1 HFA's cash balance as at 31 May 2014 is US$57.9m, of which US$41.7m will be used to fund the Buy-Back.
2 Assumes an AUD:USD exchange rate of 0.9000.

holdings

Pro forma financial impact

Pro forma Statement of Financial Position as at 31 December 2013

US$ millions	Extract from reviewed Statement of financial position as at 31 December 2013	Adjustment for accrued interest on 75 MCNs from 31 December 2013 to 31 May 2014	Pro forma adjustments for 50 MCN repurchase	Pro forma adjustments for 25 MCN amendment	Pro forma adjustments for Option cancellation	Pro forma adjustments for Capital Raising	Pro forma adjustments for Repayment to Westpac	Pro forma Statement of financial position as at 31 December 2013
Cash	46.1		(50.6)			13.9	(5.0)	4.4
Total assets	**188.3**							**146.6**
MCNs	21.7	(1.9)	(13.2)	2.8				9.4
Westpac debt	23.3						(5.0)	18.3
Total liabilities	**52.2**							**34.9**
Accumulated losses	(148.8)	(1.0)	(0.7)	(0.6)	3.8			(147.3)
Capital and reserves	284.9	2.9	(36.7)	(2.2)	(3.8)	13.9		259.0
Total Equity	**136.1**							**111.7**

The pro forma Statement of Financial Position has been prepared based on HFA's consolidated Statement of Financial Position at 31 December 2013, adjusted for pro forma assumptions and adjustments calculated in accordance with Australian Accounting Standards which include:

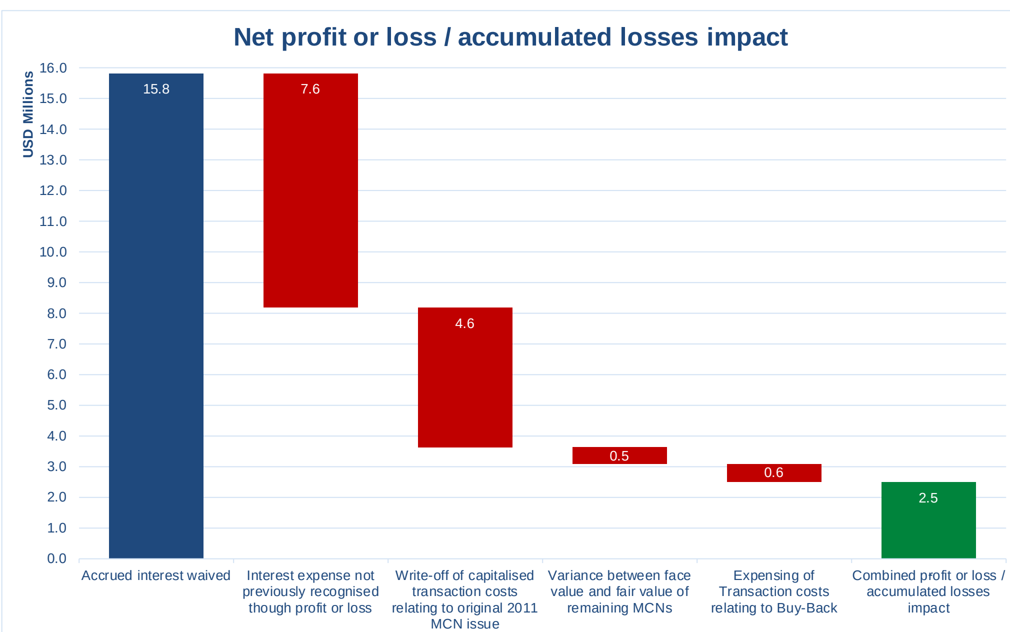
- Carrying amount of 75 MCNs adjusted for the accrual of interest for the period from 31 December 2013 to 31 May 2014.
- Waiver of capitalised interest on the existing 75 MCNs.
- Buy-Back of 50 MCNs for cash consideration of US$50m and the payment of US$0.6m of estimated Transaction costs associated with Buy-Back and terms amendment (excluding Capital Raising costs).
- Carrying value adjustment for the remaining 25 MCNs to recognise the estimated MCN fair value based on the amended terms.
- Cancellation of 31.25m share options held by Apollo and PAHFA for nil consideration.
- Capital Raising of US$13.9m (net of Capital Raising costs).
- A US$5m repayment of the senior debt facility at Buy-Back Completion.

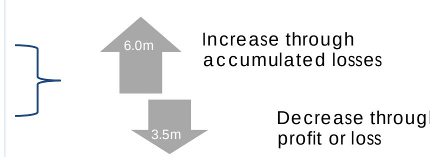
Accounting impact of the Transaction on comprehensive income

The MCNs are hybrid instruments which have both debt and equity characteristics. The amendments to the terms of the 25 MCNs that remain on issue also result in the recognition of an embedded derivative component. In applying the requirements of the Australian Accounting Standards, comprehensive income will be impacted by certain elements of the Transaction being expensed through Profit or Loss, and other elements being recognised directly against accumulated losses.

One-off FY15 impact (US$ million)	**Profit or Loss**	**Accumulated losses**	**Combined**
From repurchase of 50 MCNs	(2.4)	1.7	(0.7)
From amendment to the terms of the remaining 25 MCNs	(1.1)	0.5	(0.6)
From cancellation of 31.25m options held by Apollo and PAHFA	-	3.8	3.8
Transaction total	**(3.5)**	**6.0**	**2.5**

The following chart outlines the expected one-off impacts of the Buy-Back and amended MCN terms at the time of Buy-Back Completion:





Impact on MCN liabilities

MCN liabilities as at 31 May 2014

The following table sets out the impact on the liability balances on the Statement of Financial Position arising from Buy-Back of the 50 MCNs and the amendment to the terms for the 25 MCNs that remain on issue as at 31 May 2014:

	Carrying value as at 31 May 2014	
	Before Buy-Back and amendment of MCN terms	After Buy-Back and amendment of MCN terms
50 MCNs repurchased and cancelled		
Comprised of:		
MCN debt	13.2	-
Equity balance	36.7	-
Carrying value of instrument	**49.9**	**-**
Remaining 25 MCNs		
Comprised of:		
MCN debt	6.6	8.3
Derivative liability	-	1.1
Equity balance	18.3	16.1
Carrying value of instrument	**24.9**	**25.5**

Fair value of the debt portion of the 25 MCNs is higher due to:
- Increase in interest rate to 8%pa
- Lower discount rate used when determining fair value

Derivative liability component represents the net value of the embedded derivative features of the 15 MCNs able to be repurchased for cash, including the potential step-up in interest rate feature.

Mandatory conversion feature

The effect on capital structure

	Current		After buy-back	
	Shares	% IC	Shares	% IC
Issued capital				
Ordinary shares on issue	118,738,157	56.0%	118,738,157	73.2%
New Shares issued from Capital Raising	-	-	17,810,723	11.0%
75 MCNs – on converted basis(1)	93,448,095	44.0%	-	-
25 MCNs – on converted basis(2)	-	-	25,599,017	15.8%
Total shares (diluted for the conversion of the MCNs) immediately after Buy-Back Completion	**212,186,252**		**162,147,897**	

(1) Accreted Face Value as at 30 June 2014 of US$91.3m at fixed conversion price of US$0.9766
(2) Face Value as at 1 July 2014 of US$25.0m at fixed conversion price of US$0.9766

The Buy-Back gives rise to a decrease in the share capital of HFA, diluted for the conversion of the MCNs, of 23.6%

Impact on diluted Earnings Per Share

The Transaction is materially accretive (>25%) to HFA's diluted earnings per share in FY15 (excluding one-off profit or loss impacts of the Buy-Back). This is primarily driven by:

- the 22.6% reduction in the weighted average number of shares (calculated on a fully diluted share basis); and
- a reduction in the net interest expense.

Board and management update

Board

The Transaction will result in the following board changes:

- **Resignation:** On Buy-Back Completion, the three nominated Apollo executives will resign from their positions as HFA directors
- **Appointment:** Under the terms agreed for the remaining MCNs, nominees from WLR-SC will be entitled to nominate directors as follows:
  - WLR-SC holds 16 or more MCNs – 3 directors
  - WLR-SC holds 15 or less MCNs – no directors
- **Appointment:** The HFA board intends to appoint 2 US-based independent, non-executive directors

Immediately following Buy-Back Completion, the board could comprise up to 9 directors as follows:

Executive	Non- executive	Independent Non executive
• Sean McGould *Lighthouse President*	• Andy Bluhm • WLR-SC[1] *nominee* • WLR-SC[1] *nominee* • WLR-SC[1] *nominee*	• Michael Shepherd *Acting Chair* • Andy Esteban • New US-based director • New US-based director

1 The timing for appointment of new WLR-SC nominee directors is at its discretion, and may not necessarily be exercised immediately after Buy-Back Completion.

Management

The board is looking to make an additional senior Lighthouse executive appointment with specific responsibility for enhancing distribution of Lighthouse products and services.

This appointment is dependent on identifying a suitable candidate for this role. As a result, timing of the appointment is uncertain. Otherwise, there are no other changes to management expected or planned in the short term.

holdings

Capital Raising terms

Offer summary

Capital Raising	▪ Fully underwritten placement to eligible institutional investors to raise approximately A$16 million – Approximately 17.8 million shares will be issued
Use of proceeds	▪ Capital Raising proceeds will partly fund the buy-back of 50 MCNs from Apollo
Offer Price	▪ Capital Raising conducted at a fixed price of A$0.90 (“Offer Price”) per share ("New Share") ▪ The Offer Price represents a: – 5.3% discount to HFA's last closing price of A$0.95 per share prior to the Capital Raising announcement
Ranking of New Shares	▪ New Shares issued under the Capital Raising will rank equally from issue in all respects with existing fully paid ordinary HFA shares
Sole Lead Manager and Underwriter	▪ UBS AG, Australia Branch

Timetable

Event	Date
Announcement of MCN restructure and Capital Raising	Thursday, 26 June 2014
Settlement of the Capital Raising	Tuesday, 1 July 2014
Issue of New Shares	Wednesday, 2 July 2014
New Shares commence trading on ASX	Wednesday, 2 July 2014
Buy-Back Completion	Thursday, 3 July 2014

The timetable may be amended at the discretion of HFA and the Underwriter, including if required by the ASX.

FY14 trading update

AUMA update*

- The positive performance of the funds managed by HFA's subsidiary businesses for the 11 months to 31 May 2014 has added to AUMA growth and strong performance fee revenue
- AUMA (based on estimated performance returns) as at 31 May 2014 is $8.6bn

AUMA as at 31 May 2014	US$ billions
Lighthouse Partners	7.758
Certitude Global Investments	0.829
Total Group	**8.587**

YTD results

- HFA will formally release its results in mid-August 2014 once the full-year audit by its independent auditor is completed
- Five month performance to May 2014 is consistent with the December 2013 half-year result.

Performance update*

Performance to 31 May 2014 for Lighthouse Diversified Fund, L.P. and Lighthouse Global Long/Short Fund, L.P.

Lighthouse Fund	1 year	3 year (pa)	5 year (pa)	10 year (pa)	3 year volatility
Lighthouse Diversified Fund, L.P.	3.45%	5.81%	7.48%	5.30%	3.46%
Lighthouse Global Long/Short Fund, L.P.	0.09%	7.14%	6.95%	n/a	5.34%
MSCI AC World Index	4.48%	9.58%	14.31%	8.03%	14.32%
HFRX Global Hedge Fund Index	0.83%	0.67%	2.79%	1.11%	4.15%

* Performance is not audited and is based on estimates for May 2014. Therefore, all performance data for the Lighthouse Funds is subject to revision. Performance may vary among different share classes or series within a fund. Past performance is not indicative of future results.
Note: AUMA refers to assets under management and advice

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Outlook

AUMA

- Expect that the customised client solutions business will continue to be a driver of Lighthouse AUMA growth.
- Focus on expanding existing distribution channels.
- Investment performance expected to continue to add positively to AUMA.

Products and performance

- Continue to enhance the development of the risk management software which will provide an even more powerful monitoring and risk management tool to be utilisied by the Lighthouse Funds and clients.
- Ongoing review of market and client needs to drive innovation in servicing client needs and product design.
- Products continue to deliver against their stated investment objectives.

Strategy

- Resolving HFA's complex capital structure has been the HFA board's priority for some time. HFA's existing senior debt facility matures in March 2016, and HFA has agreed to accelerated repayment terms on this facility as part of this Transaction. HFA will continue to consider options available in relation to on-going financing.
- HFA's business strategy will focus on further strengthening its product performance, client relationships and distribution reach.

HFA holdings

Key risks

Share price risk

There are general risks associated with an investment in the share market. As such, the future value of HFA shares depends on various factors including investor perceptions, Australian and worldwide economic conditions and HFA's financial performance and position. Further, broader market factors affecting the price of HFA ordinary shares are unpredictable and may be unrelated or disproportionate to the financial or operating performance of HFA. Volatility in global markets and other factors beyond the control of HFA could negatively impact the value of HFA shares and also lead to a loss in AUMA for HFA through a related reduction in fees earned.

Product investment performance

Significant or prolonged underperformance could lead to a reduction in AUMA which could materially impact HFA's business. If there are significant redemptions from the HFA Funds, there may be a need to liquidate assets, the value of which may have been significantly adversely impacted by then existing market events and other matters which could lead to a significant reduction in returns of the HFA Funds and fees earned.

Dependency on key personnel

HFA's performance is dependent on the talents and efforts of key senior executives. HFA's continued ability to compete effectively depends on the capacity of HFA to retain and motivate existing employees as well as attract new employees.

There is a risk that the Group may not be able to attract and retain key staff or be able to find effective replacements in a timely manner, the loss of which, or any delay in their replacement, could impact the Group's ability to operate its businesses and achieve its strategies.

The loss of key executives could cause material disruption to HFA's activities and operations.

Competition

The wealth management industry within the United States and Australia is highly competitive and expected to remain so. Competitive pressures could result in fee reductions, reduced margins or loss of market share, any of which could adversely affect HFA's business.

Maintaining the HFA brand is also important to attracting and expanding its customer base, solidifying its business relationships and implementing its business strategy. A tarnished brand could have a material impact on HFA's operations.

Regulatory risk

The Group operates in a highly regulated industry and is required to comply with an extensive range of regulatory requirements in relation to its respective businesses. There has been a significant increase in regulatory requirements and filing obligations in recent years. Changes to United States, Australian and other laws may increase regulatory and compliance obligations of the Group and associated costs, and may impact the ability to attract and retain AUMA.

Client concentration risk

The Group has a key client in the Lighthouse Managed Solutions business which represents between 5 and 10% of the Group's gross revenue. Loss of this key client would adversely affect HFA's financial performance.

Reputational risk

Maintaining the strength of the Group's reputation is important to retaining and increasing the client base, maintaining the relationships with clients and service providers and successfully implementing the Group's business strategy. There is a risk that unforeseen issues or events may adversely affect the Group's reputation. This may impact on the future growth and profitability of the Group. Any factors that diminish the Group's reputation could result in clients and service providers ceasing to do business with the Group, impede its ability to compete successfully, negatively affect its future business strategy and have a material adverse impact on the Group's financial position and performance.

Operational risks

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which impact on HFA's business. HFA will be exposed to operational risks present in the current business including risks arising from process error, fraud, system failure, failure of security and physical protection systems, and unit pricing errors. Operational risk has the potential to have a material adverse effect on HFA's financial performance and position as well as reputation.

Material litigation

HFA is not currently involved in any material litigation and is not aware of any facts or circumstances that may give rise to any material litigation. However, given the scope of HFA's activities and the wide range of parties it deals with, HFA may be exposed to potential litigation from third parties such as customers, regulators, employees and business associates.

No assurance of liquidity or trading price

There can be no assurance that HFA ordinary shares will trade at any particular price or as to liquidity of trading or that any capital growth in the assets will translate into a higher price at which the HFA ordinary shares trade. It should also be noted that the historical share price performance of HFA ordinary shares provides no guidance as to the future share price performance.

Accounting standards

HFA prepares its general purpose financial information in accordance with Australian Accounting Standards (AASB) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. Australian Accounting Standards are subject to amendment from time to time, and any such changes may impact on HFA's financial information.