

HFA Holdings Limited

# 2015 Interim Financial Results

19 February 2015

The numbers in this presentation have been presented in **US dollars (USD)**, unless otherwise indicated as being presented in Australian dollars (AUD).

# Headline results for FY15 first half

As at 31 December 2014:

AUMA

\$8.673 billion

Net profit after tax

Statutory : \$125.0 million  
Underlying : \$8.6 million

EBITDA

Statutory : \$11.2 million  
Underlying : \$13.4 million

EPS

Statutory : 77.01 cps  
Underlying : 5.34 cps

Dividend

5.0 cents per share

Statutory results for the 6 months to 31 December 2014 include the \$118.6m positive impact of booking the previously unrecognised deferred tax assets in the Lighthouse business and the \$2.2m loss recognised in relation to the buy-back and conversion of convertible notes (see next page for additional details).

# Non-recurring items impacting half-year results

## Convertible note buy-back & conversion

- An accounting loss of \$2.2 million was recognised through the income statement during the period due to the completion of the buy-back of 50 Convertible Notes and the amendment of the terms of the remaining 25 Convertible Notes which occurred in July 2014.
- The remaining 25 Convertible Notes were converted to ordinary shares in August 2014.
- The loss recognised in this period's income statement is non-recurring in nature.

Note 6 to the financial statements in the 2015 Interim Financial Report contains further explanation of these transactions and their financial impacts.

## Recognition of Lighthouse deferred tax assets

- With the ongoing growth in Lighthouse's operating performance, an assessment has been made that it is probable that Lighthouse will produce sufficient taxable profits in future financial years against which \$126.7 million of deferred tax assets will be utilised. As a result, the Group has recognised these deferred tax assets on the balance sheet as at 31 December 2014.
- The recognition of these deferred tax balances has resulted in a tax benefit in the consolidated income statement of \$118.6 million and \$8.1 million in other comprehensive income.
- A further \$4.3 million of deferred tax assets relating to Lighthouse remain unrecognised. These assets are forecast to be utilised prior to 30 June 2015.
- It is not expected that the Group will be in a tax payable position for a number of years (other than in relation to some relatively nominal United States State-based taxes).

# Financial performance

# Key financial outcomes

## Income



- Operating Income
  - Operating income of **\$33.257 million** (HY14: \$32.168 million).
    - Lighthouse operations contributed **\$31.502 million**, up 8% on prior period.
    - Certitude operations contributed **\$1.755 million**, down 39% on prior period.
- Average net management fee rate
  - 75 bps** (HY14: 71 bps).

## Expenses



- Operating Expenses
  - Operating expenses (excluding non-cash depreciation, amortisation and equity settled transaction costs), up 10% to **\$20.675 million**.
  - Primarily due to increases in short term incentive payments
  - Other increases due to higher occupancy, travel and other administration costs incurred in HY15

## Earnings



- Underlying EBITDA
  - Increased 2% to **\$13.378 million** (HY14: \$13.102 million).
- Underlying NPAT
  - Increased 25% to **\$8.605 million** (HY14: \$6.884 million).
- Underlying EBITDA margin
  - 36%** (HY14: 37%)
- Underlying EPS (basic & diluted)
  - 5.34 cps** (HY14: 3.91 cps)
- Dividends
  - Interim dividend of **5.0 cps** (unfranked, 100% CFI credits)

## Debt



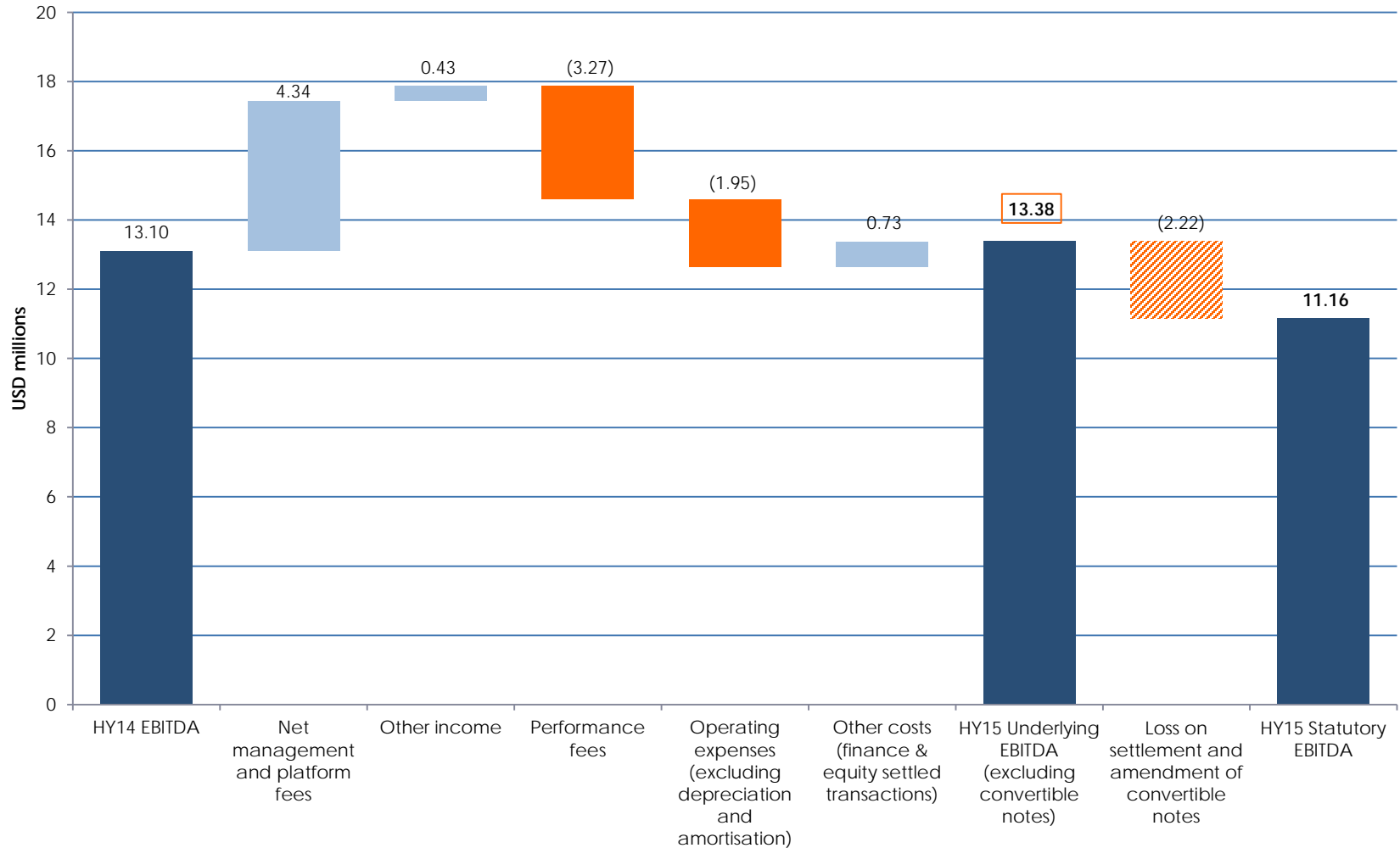
- Bank Debt
  - Senior debt facility: \$14.5 million
  - Cash: \$21.8 million

## AUMA

- \$8.673 billion** as at 31 December 2014 (30 June 2014: \$8.664 billion) up **0.1%**.



# Comparison of HY15 first half to prior period result



# Key drivers of the HY15 results

Management and platform fees	<p>Management and platform fee income increased in HY15 by 15% to \$36.1 million.</p> <p>The increase was a result of:</p> <ul style="list-style-type: none"> <li>▪ a 9% increase in the average closing AUMA for the six month period; and</li> <li>▪ a 4 basis point increase in the average net management / platform fee rate which applied for the six months to 0.75%.</li> </ul>	Operating expenses	<p>The Group's overall operating expenses were \$20.7 million, up \$2.0 million on the prior period. This is primarily due to increases in short term incentive payments, although there have been some other increases in relation to occupancy, travel and other administration costs as compared to the prior period.</p> <p>HFA also incurred \$0.2 million of one-off director and executive recruitment fees, and also had increased share registry costs due to having a higher number of shares on issue following the institutional share placement and conversion of the convertible notes (see slide 3).</p> <p>Lighthouse continues to progress the appointment of an additional senior distribution executive, but has not yet identified the right candidate.</p> <p>Continued development of key risk management software with an external third party has reached certain milestones, and an annual licensing cost to the US business of \$1.25m to commence from February 2015.</p>
Performance fees	<p>The Group earned \$0.8 million in performance fees this period, down 81% on the prior period.</p> <p>Performance fees are variable in nature, and it is difficult to forecast how much, if any, performance fee revenue will be earned by the Group in future periods.</p>		
Distribution and investment management costs	<p>11% increase in distribution and investment management costs ('DIMC').</p> <p>The increase was a result of:</p> <ul style="list-style-type: none"> <li>▪ an increase in Lighthouse's AUMA to which DIMC is attached. This is consistent with the increase in management fee income earned by Lighthouse; and</li> <li>▪ an increase in Certitude's external fee rebates, which increased in line with average AUMA.</li> </ul>	Net interest	<p>88% decrease in net interest expense:</p> <p>Decrease in interest expense due to:</p> <ul style="list-style-type: none"> <li>▪ Reducing balance of the Westpac loan; and</li> <li>▪ Buy-back and redemption of the convertible notes during the period.</li> </ul>

# Summary of financial performance

<i>USD millions</i>	31 Dec 2014	31 Dec 2013	Impact on result	% Change
Management and platform fee income	<b>36.139</b>	31.448	↑	15%
Performance fee income	<b>0.758</b>	4.023	↓	(81)%
Other income	<b>0.036</b>	0.020	↑	80%
Distribution and investment management costs	<b>(3.676)</b>	(3.323)	↓	(11)%
<b>Operating income</b>	<b>33.257</b>	<b>32.168</b>	↑	<b>3%</b>
Sublease income	<b>0.411</b>	-	↑	100%
Operating expenses, excluding depreciation and amortisation	<b>(20.675)</b>	(18.720)	↓	(10)%
Net finance income / (costs), excluding interest	<b>0.385</b>	0.029	↑	1,228%
Loss on settlement and conversion of convertible notes	<b>(2.217)</b>	-	↓	(100)%
Equity settled transactions	-	(0.375)	↑	100%
<b>EBITDA</b>	<b>11.161</b>	<b>13.102</b>	↓	<b>(15)%</b>
Depreciation and amortisation	<b>(4.604)</b>	(4.946)	↑	7%
Net interest expense	<b>(0.153)</b>	(1.258)	↑	88%
<b>Profit/(loss) before income tax</b>	<b>6.404</b>	<b>6.898</b>	↓	<b>(7)%</b>
Income tax benefit / (expense)	<b>118.606</b>	(0.014)	↑	-
<b>Net profit after income tax</b>	<b>125.010</b>	<b>6.884</b>	↑	<b>1,716%</b>
<b>Basic EPS (cents)</b>	<b>77.01</b>	<b>3.91</b>	↑	<b>1,870%</b>
<b>Underlying basic EPS (cents)</b>	<b>5.34</b>	<b>3.91</b>	↑	<b>37%</b>



# HFA Group balance sheet

<i>USD millions</i>	31 Dec 2014	30 June 2014
Cash	21,780	65,902
Intangible assets	105,461	110,096
Secured bank loan	14,448	22,323
Convertible notes		
▪ portion recognised as a financial liability	-	19,249
▪ total face value at period end	-	89,568
<b>Recognised deferred tax assets</b>	<b>126,697</b>	-
▪ portion relating to carried forward tax losses	41,926	-
<b>Unrecognised deferred tax assets</b>	<b>77,673</b>	218,761
▪ portion relating to carried forward tax losses	3,871	43,917

# Key balance sheet items

## Cash

\$44.1 million decrease in cash from June 2014 as a result of:

- \$10.6 million cash generated from operating activities
- \$8.0 million paid in dividends to shareholders
- \$8.4 million paid in interest and principal repayments on the bank loan
- \$36.2 million for buy-back of the convertible notes (net of proceeds from share placement)

## Intangible assets

When HFA acquired Lighthouse in January 2008, it recognised:

- \$76.1 million of client relationships, trademarks and software

The identifiable intangible assets are being amortised over their useful lives (between 5 and 20 years) resulting in an amortisation expense of approximately \$9.4 million each year. \$9.2 million of this \$9.4 million annual amortisation expense is scheduled to cease from December 2015, when only a small residual balance of these intangible assets will remain on the balance sheet.

- \$499.5 million of goodwill.

An impairment loss of \$405.7 million was recognised against the goodwill balance in the 2009 financial year. HFA has continued to carry a written-down goodwill balance of \$93.8 million since that time.

## Bank debt

Secured bank loan decreased by \$7.8 million to \$14.5 million as at 31 December 2014.

As part of the transaction outlined on slide 3, HFA increased repayments on the bank loan in order to obtain required senior creditor consent to the transaction. Principal repayments are currently \$1.9 million per quarter. Based on the repayment schedule, \$7.5 million of the outstanding loan balance is classified as a current liability.

The loan is due to mature in March 2016, and under current repayment terms would be repaid in full at maturity.

## Convertible notes

No convertible notes remain on issue as at 31 December 2014.

- On 2 July 2014, the Company settled the buy-back of 50 convertible notes on issue.
- On 11 August 2014, the remaining 25 notes were converted to ordinary shares.

See slide 3 above and note 6 to the financial statements in the 2015 Interim Financial Report for additional detail of these transactions.

## Unrecognised deferred tax assets

The Group has significant deferred tax assets relating to both the Australian tax consolidated group and the United States tax consolidated group that are made up of the following components:

### Recognised

- **US:** \$41.9 million of US carried forward tax losses
- **US:** \$84.8 million of other (capital losses, impairment losses, deductible temporary differences)

An assessment has been made that it is probable that the US Group will produce sufficient future taxable profits against which its carried forward tax losses will be utilised. As a result, the Group has recognised deferred tax assets of \$126.7 million as at 31 December 2014. A further \$4.3 million of deferred tax assets remain unrecognized in accordance with AASB 134 as they are forecast to be utilized in the second half of FY15.

### Unrecognised

- **Aust:** \$3.8 million of Australian carried forward tax losses
- **Aust:** \$69.6 million of other (capital, impairment losses and deductible temporary differences)
- **US:** \$4.3 million of other (capital losses, impairment losses, deductible temporary differences)

Due to current uncertainty as to when, and how much, of the Australian Group's tax losses may be utilised to off-set future tax payable, as at 31 December 2014 HFA has not recognised any existing carried forward losses as deferred tax assets for the Australian Group.

# AUMA and investment performance

# AUMA has held steady throughout the half year

	1 July 2014 AUMA	Net Flows	Performance	FX Translation on Australian AUMA	31 December 2014 AUMA
<b>Lighthouse</b>					
Funds	USD 3.88 bn	↑ USD 0.02 bn	↑ USD 0.09 bn		USD 3.99 bn
Customised Client Accounts	USD 4.12 bn	↓ USD 0.02 bn	↓ USD 0.01 bn		USD 4.09 bn
<b>Certitude</b>					
Open-ended Funds	AUD 0.47 bn	↑ AUD 0.01 bn	↑ AUD 0.02 bn		AUD 0.50 bn
Structured Products	AUD 0.240 bn	↓ AUD 0.01 bn	-		AUD 0.23 bn
<b>Combined total</b>	<b>USD 8.66 bn</b>	<b>↓ USD 0.01 bn</b>	<b>USD 0.10 bn</b>	<b>↓ USD 0.08</b>	<b>USD 8.67 bn</b>

# Key Lighthouse Funds – performance

December 2014 Performance

Lighthouse Multi-strategy Funds	December	YTD	3 year	5 year	10 year	3 year volatility
Lighthouse Diversified Fund LP	0.85%	7.39%	8.79%	6.28%	5.22%	2.75%
Lighthouse V Fund Ltd	0.37%	6.97%	7.78%	5.05%	4.45%	2.79%
Lighthouse Multi-Strategy Fund Ltd	0.57%	6.80%	7.91%	5.62%	n/a	3.14%
Lighthouse Strategy-Focused Funds	December	YTD	3 year	5 year	10 year	3 year volatility
Lighthouse Global Long/Short Fund LP	0.61%	5.26%	10.59%	6.88%	6.48%	4.59%
Lighthouse Credit Opportunities Fund LP	0.40%	3.35%	9.17%	9.36%	5.74%	3.88%
Lighthouse Managed Futures Fund LLC	1.27%	10.42%	0.72%	1.88%	n/a	8.44%
Lighthouse Healthcare Series	3.54%	12.26%	14.58%	8.99%	n/a	7.24%
Benchmarks	December	YTD	3 year	5 year	10 year	3 year volatility
S&P 500 (with reinvested dividends)	-0.25%	13.69%	20.41%	15.45%	7.67%	9.10%
MSCI AC World Index	-1.89%	4.71%	14.71%	9.74%	6.64%	10.63%
Barclays Government / Credit Bond Index	0.08%	6.00%	2.76%	4.69%	4.70%	2.99%
91 Day US Treasury Bills	0.00%	0.03%	0.07%	0.09%	1.55%	0.02%
HFRX Global Hedge Fund Index	-0.75%	-0.57%	3.18%	1.04%	0.70%	3.13%

\* Performance may vary among different share classes or series within a fund. Past performance is not indicative of future results.

# Certitude Funds – performance

31 December 2014

	1 year	3 year (pa)	5 year (pa)	10 year (pa)	Since Inception (pa)	Since Inception Volatility (pa)
<b>Threadneedle Global Equity Income Fund (Unhedged)</b>	5.46%	n/a	n/a	n/a	23.77% (30-Nov-2012)	8.62%
<i>Benchmark: MSCI ACWI Gross (AUD unhedged)</i>	14.47%	n/a	n/a	n/a	28.49% (30-Nov-2012)	8.83%
<b>GaveKal Asian Opportunities Fund</b>	12.64%	15.62%	n/a	n/a	10.32% (12-Oct-2010)	9.42%
<i>Benchmark: MSCI AC Asia Pacific Index</i>	9.64%	18.16%	n/a	n/a	9.11% (12-Oct-2010)	8.45%
<b>LHP Global Long/Short Fund (Wholesale)</b>	6.80%	11.92%	8.96%	8.03%	6.98% (31-Mar-2001)	4.85%
<i>Benchmark: MSCI ACWI Net (100% hedged to AUD)</i>	11.43%	19.13%	12.97%	8.24%	6.67% (31-Mar-2001)	14.69%
<b>LHP Diversified Investments Fund</b>	9.76%	11.23%	8.33%	5.20%	5.73% (31-Mar-2001)	6.18%
<i>Benchmark: HFRX Global Hedge Fund Index (100% hedged to AUD)</i>	0.95%	5.76%	4.06%	2.80%	4.60% (31-Mar-2001)	5.68%

Past performance is not an indicator of future performance.

# Business overview

# Who we are

The HFA group comprises two businesses delivering global investment products and services to a diverse range of investors and clients.



## Lighthouse Investment Partners, LLC

Based in the United States, with offices in New York, Chicago and Palm Beach Gardens in addition to offices in London and Hong Kong.

Lighthouse has been managing hedge funds since 1999. The business commenced by offering pooled investment vehicles to wholesale investors, and since 2011 has broadened its services to provide customised investment management solutions and services to large institutional clients.

One of Lighthouse's key strengths is the proprietary managed accounts program, which is core to both its pooled managed funds and customised client services.

As at 31 December 2014, Lighthouse is managing USD8.4 billion of assets, including USD0.3 billion that it manages on behalf of Certitude products.



## Certitude Global Investments Limited

Based in Australia with offices in Sydney, Brisbane and Melbourne.

Certitude has been operating and distributing hedge funds to Australian retail and wholesale investors since 1998.

Since 2009, Certitude has broadened its investment product range through strategic partnerships with other off-shore investment managers. Since that time, Certitude has introduced new managed funds which invest into a broader range of asset classes, with a particular focus on global and Asian equities.

As at 31 December 2014, Certitude has assets under management of AUD0.7 billion.



# What drives our business?

## AUMA

HFA earns its revenue from managing assets on behalf of its clients (our "assets under management and advice" or "AUMA").

We seek to attract and retain AUMA by offering quality investment products and services, and delivering competitive performance and features.

Our ability to do this can also be impacted by external factors such as global markets and investor sentiment.

## Fee rates

The revenue we earn on our AUMA depends on the management and performance fees we are entitled to charge for our services.

Our pooled investment products pay us management and performance fees based on disclosed rates, whilst our institutional clients can negotiate fees with us.

We operate in a highly competitive market, and there is pressure from investors to negotiate lower fee rates across the global investment management industry.

## People

Our success relies on attracting and retaining talented employees.

It is our employees who use their skills and knowledge to enable us to provide quality investment products and services, to innovate to meet changing investor needs and to respond to compliance requirements in what is a highly regulated industry.

To attract, motivate and retain quality employees HFA needs to offer competitive compensation and incentive packages.

# Lighthouse Investment Partners

## Business profile

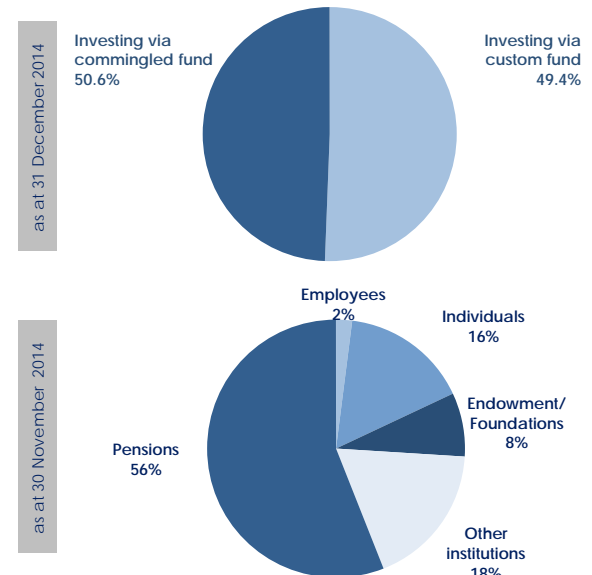
Employees	~ 68
Offices	Chicago, New York, Palm Beach Gardens, London, Hong Kong
Registration	Registered Investment Adviser with US Securities & Exchange Commission
Administrator of Funds	GlobeOp Financial Services

## Fund Profile as at 31 December 2014

Funds	Strategy	% Managed account (offshore/onshore)	Inception <sup>1</sup>
Lighthouse Diversified	Multi-Strategy	91%/90%	August 1996
Lighthouse Credit Opportunities	Diversified Credit	91%/87%	January 2003
Lighthouse Global Long/Short	Global Equity Long/Short	100%	January 2004
Lighthouse Managed Futures	Managed Futures	100%	January 2006
Lighthouse Healthcare	Long/Short Healthcare Sector	100%	January 2007
Lighthouse Multi-Strategy Fund	Multi-Strategy	98%	January 2009
Lighthouse Asian Compass	Multi-Strategy, Asia Focus	100%	January 2010

<sup>1</sup> Inception relates to the Lighthouse vehicle of the particular strategy with the longest track record

## AUMA composition



The Lighthouse business is about underpinning consistent, risk-adjusted investment returns with strong investment governance primarily through **managed accounts**

- Daily visibility into positions aggregated across manager and portfolio

Transparency



- Legal structure allows for better asset protection

Protection



- Structural and operational decisions are made by Lighthouse to mitigate underlying manager's operational risks

Control



- Approximately 100 funded managed account investments
- Approximately 83% of Lighthouse AUMA is managed via managed accounts
- Protection through housing of assets in a segregated structure, no commingling of assets between managed accounts

# Lighthouse

A full range of self-directed and managed hedge fund solutions



- Approximately 100 funded managed account investments across all major hedge fund strategies
- Can include Lighthouse managed accounts, investor-sourced hedge funds and Lighthouse Funds
- Direct access to senior investment professionals
- Hedge fund strategy development and implementation
- Increase transparency, centralise risk management, seek to reduce fees
- Core-satellite and completion program construction around current hedge fund investments
- Strategy and regional specific investments to complement existing allocations
- Lighthouse reviews an underlying manager to identify whether there is adequate internal control structures in place
- Enables investors and consultants to focus on investing while Lighthouse focuses on confirming sound operational controls and procedures
- Ability to implement certain opportunistic investments as they arise (eg – special situations, spread dislocations)
- Centralising reporting, risk management and analytics (where daily position-level information is available)

# Certitude Global Investments

## Business profile

Employees	~ 21
Offices	Sydney, Brisbane and Melbourne
Registration	Responsible Entity Australian Financial Services Licence

## Fund Profile

Funds	Strategy	Underlying manager	Inception
LHP Diversified Investments	Multi-Strategy	Lighthouse	March 2001
LHP Global Long/Short	Global Equity Long/Short	Lighthouse	March 2001
GaveKal Asian Opportunities	Asian	GaveKal Capital	October 2010
Threadneedle Global Equity Fund	Global equities (long only)	Threadneedle	September 2011
Threadneedle Global Equity Income Fund Unhedged	Global equities (long only), focus on dividend yield	Threadneedle	November 2012
Columbia Credit Fund	Global fixed interest	Columbia Management	April 2013
Structured Products	Capital Protected Funds with defined maturity dates to June 2016	Various	2003 to 2008

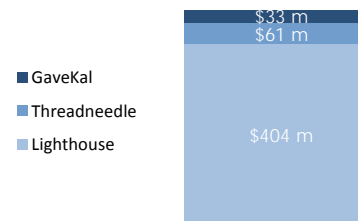
The Certitude business is about distributing quality investment manager partners who focus on delivering **alpha** from **global investment strategies**



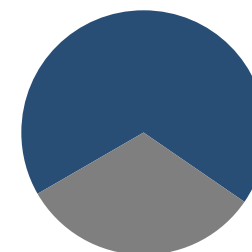
- Certitude selects high quality active investment managers from around the globe and brings their expertise to Australian investors
- These active solutions aim to deliver outperformance on a risk adjusted return basis allowing investors to complement their passive strategies with a strong risk management focus
- Certitude's investment partners are located across all the major financial markets and their selection is underpinned by a robust investment process

## AUMA composition

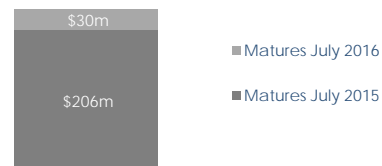
as at 31 December 2014



81% of Certitude's AUD 498 million of open-ended product AUMA is managed by Lighthouse as at 31 December 2014.



68% of Certitude's AUMA at 31 December 2014 is in open-ended products.



The remaining structured product assets will mature and be returned to investors by July 2016.

# Certitude... Global partners, global view

GLOBAL  
ALTERNATIVES



Lighthouse Investment Partners, LLC ('Lighthouse') is a US based investment manager dedicated to managing funds of hedge funds for diversification and absolute return. Lighthouse manages funds for a worldwide client base that includes corporations, university endowments, public and private foundations, pension plans, family offices, insurance companies and individual investors.

MULTI-ASSET



GaveKal Capital Limited ('GaveKal') is incorporated in Hong Kong and manages Asian long only equity and fixed income strategies utilising their expertise in Asian macroeconomic research to capitalise on the long-term growth prospects in the Asia-Pacific region. GaveKal acts as an advisor to several investment funds available to investors through funds which have combined assets over US\$1.7bn as at June 2014. These strategies are built on insights gained from GaveKal's research, and in particular their expertise in Asia.

GLOBAL  
EQUITIES



Columbia Threadneedle Investments is a leading international investment manager with a strong track record of outperformance across asset classes. Columbia Threadneedle actively manages approximately US\$505bn of assets, investing on behalf of individuals, pension funds, insurers and corporations. Threadneedle's distinctive investment approach is based on creative thinking, sharing of ideas and rigorous debate.

# Outlook

# Outlook

## AUMA

- Continue to grow AUMA through additional net inflows from new and existing clients.
- Likely to see continuation of trend of inflows being weighted towards customised client business.
- Focus on internal distribution capabilities at Lighthouse.

## Products and performance

- Products to continue to deliver against their stated investment objectives.
- Ongoing innovation with product design and offering to meet evolving client demands.

## Capital management

- Dividend policy : 50-70% of EBITDA, to be re-assessed once external debt is repaid in full
- Interim HY15 dividend will be unfranked with 100% conduit foreign income credits. Nominal franking credits remain, expect future dividends to be unfranked.

# Disclaimer

This presentation has been prepared by HFA Holdings Limited (**HFA**) and provides information regarding HFA and its activities current as at 19 February 2015. It is in summary form and is not necessarily complete. It should be read in conjunction with HFA's 31 December 2014 Interim Financial Report.

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