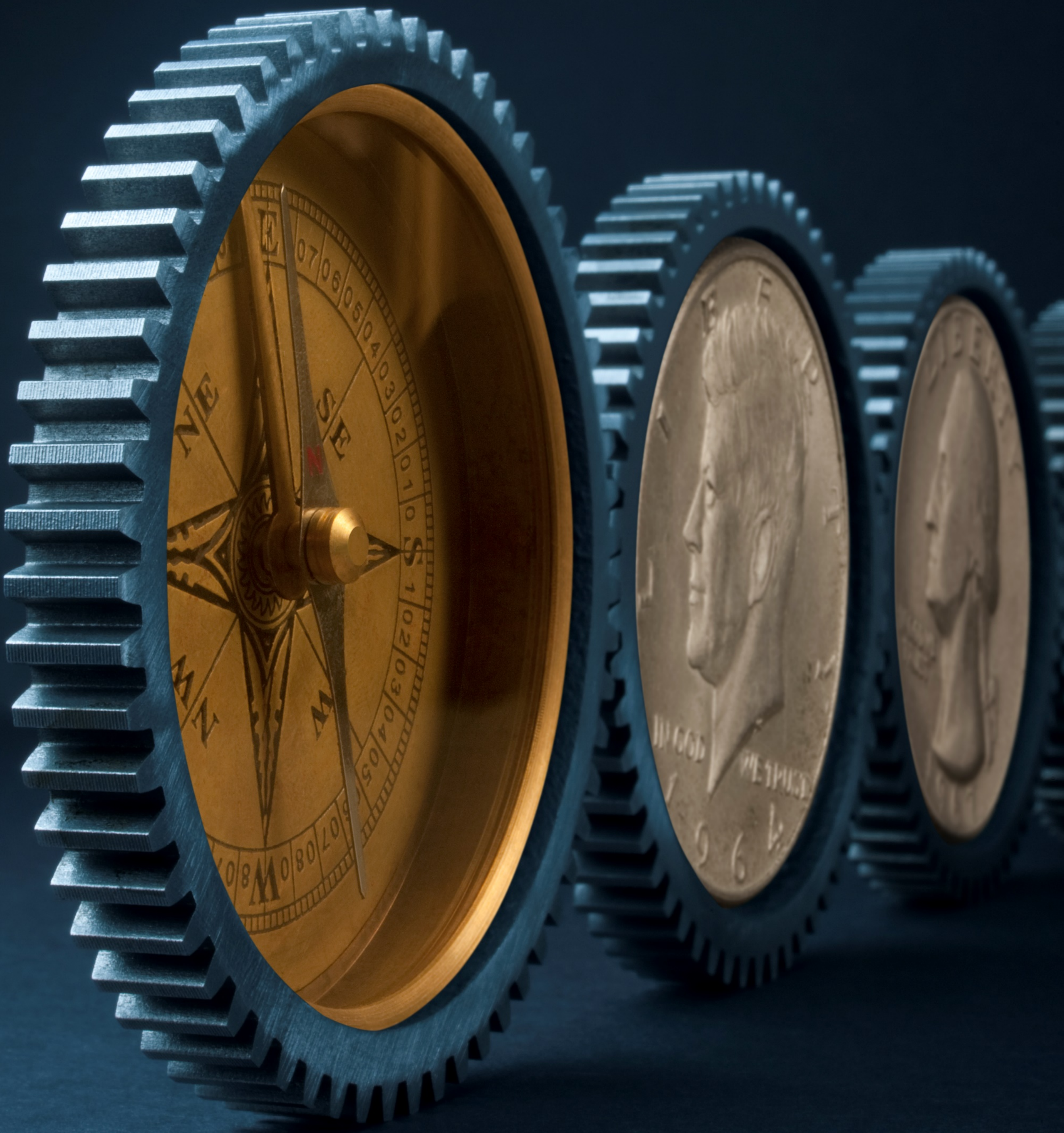
NAVIGATOR
GLOBAL INVESTMENTS

2018 Annual General Meeting
Chairman's Address

28 November 2018

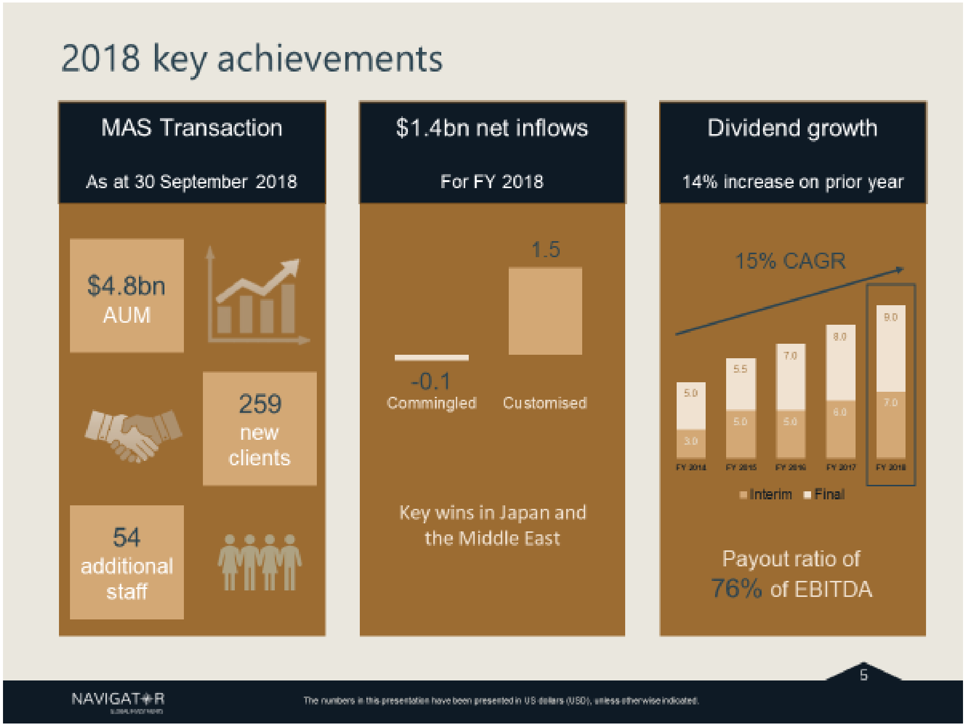


Chairman’s Address

by Michael Shepherd, AO

1 2018 Key achievements

I would like to start by discussing what I see as some of our key achievements during the 2018 financial year. Undeniably, this year we delivered significant growth in the scale of our business. Much of this growth occurred right at the end of the financial year.



1.1 MAS Transaction

During the year, we negotiated an agreement with Mesirow Financial Services to acquire the rights to manage the assets of their Mesirow Advanced Strategies business. This transaction settled on 1 July 2018, and at that time brought an additional $5.39bn of assets under management to the Navigator Group.

The structure of the transaction is somewhat unique, in that the purchase consideration for the acquisition is on a deferred basis over a 7 year period. What the Group ultimately pays for the acquired client relationships will depend on the annual profitability of the assets over this period. We expect some higher up-front costs to be incurred in the first year of transition, particularly in regards to additional information technology costs. Our focus is to integrate MAS into our existing operations, ensure a smooth and complete transition of all client and investment data, as well as retain key staff who joined Lighthouse on 1 July 2018.

As we flagged a number of times in our announcements about the transaction, we expected a higher than normal rate of attrition on the MAS assets. This was partly due to our observations regarding other transactions in the asset management space, where one plus one rarely continues to equal two once a transaction is complete. Coupled with this, there was an existing momentum of client redemptions in the MAS business which we were aware we would need to do our best to stem.

We gained more than just assets under management from this transaction. We gained knowledge, relationships and opportunities.

In terms of knowledge, we welcomed a number of new employees who bring with them a strong background and expertise in the credit market space. This is an area to which Lighthouse has not traditionally had a large exposure, and so we welcome the broadening of our investment product suite to encompass this. We believe our existing clients can benefit from having additional investment options to consider.

The relationships that this transaction has bought us are key. The MAS business is in nature largely single-investor, customised clients. It has brought a number of new client relationships, most of whom we look forward to cementing strong on-going relationships with. These are clients who we have not generally had any previous association with, and we welcome this broader client base as it solidifies the foundation of our business.

All of this essentially culminates in new opportunities. Opportunities to enhance our investment research and product suite. Advantages of scale where we can lower some costs to all clients. Opportunities to offer our existing products and services to our new clients. Opportunities to grow our network and be in contention for new business proposals. Not every opportunity is going to transform into assets under management. But a business without opportunities is a business which will stagnate, and if there is one thing that the Lighthouse business has proved over the last decade, it that despite its challenges, it is a business that does not stagnate. All of these opportunities represent an impetus to our dedicated staff to work on maximising this potential for growth. This means not just evolving our product suite, but rethinking how we can more efficiently operate our business, how we can better utilise technology, and how we can be innovative in our approach to servicing our clients in ways both large and small.

Lastly, I would like to draw attention to the fact that we do expect that we will lose additional assets from the transitioned MAS clients over the next 1 to 2 years. We do not have a view on exactly how much this will be or the timing on when it will occur, but we consider that retaining approximately 75% of the initial $5.4bn transitioned would be a reasonable result. Again I emphasise that this is an estimate only, and the final result could vary considerably.

AUM is clearly an indicator of our business's strength, however we would like to highlight some caution needs to be taken in making this the sole focus of assessing the success of the MAS transaction. We encourage our shareholders to look beyond a headline AUM number, and to consider our ability to rationalise resources if and when a client leaves us. For our business, and particularly for the transitioned MAS clients, we have view to maintaining profitability of assets even where we don't maintain the overall quantum.

1.2 $1.4 bn net inflows

I would also like to highlight that even aside from the MAS transaction, 2018 was our most successful year ever in terms of net inflows. The growth was driven by our customised solutions business, and this is certainly the client type which we believe will continue to be our biggest opportunity for growth. Japan and the Middle East were the key sources, and we continue to see these regions being a driver for future growth. We remain happy with our new business pipeline, although we do anticipate, based on past experience, that the recent volatility in global markets is likely to lengthen the close process for potential investors to grant and fund new mandates.

1.3 Continuation of year-on -year increase in dividends

Lastly, I would also like to take a moment to note that Navigator has once again delivered dividend growth, with total dividends for the 2018 financial year of US 16 cents per share. This was a 14% increase on the prior year, and represents a dividend payout ratio of 76% of the 2018 financial year's EBITDA.

Delivering a year on year increase in dividends over the past 5 years underlines the tangible nature of how we have been able to steadily grow the business as well as translate this into a return for our shareholders.

I also take this opportunity to confirm that there is no change to Navigator's stated dividend policy of paying 70-80% of EBTIDA as an unfranked dividend.

2 Operating performance

We were pleased with the results delivered by the Group's core operations for the 2018 financial year.

The core investment management operating activities of the Group earned $33.6 million for the 2018 financial year, up 10% on 2017. Management and platform fee revenue growth came from Customised Solutions, as it is this part of the business which delivered the growth in AUM over the past year.

The Group also earned higher performance fee revenue this year, which is a result of a higher proportion of our AUM being able to earn performance fees than has been the case historically, coupled with positive investment performance in the relevant portfolios across the year. As usual, we caution that we are unable to predict future performance fee revenue as it is impacted by the future investment performance of the assets. Performance fee revenue for 2018 was particularly strong, and there are no guarantees that we will be able to deliver an equivalent level for this and future financial years.

The first half trend of higher operating expenses continued in the second half of the year, and overall costs were higher by $9.6 million compared to 2017. The largest component of this relates to staff costs, and reflects the fact that we grew our staff numbers to 90 people as at 30 June 2018. We have also continued to spend to make ongoing enhancements to investment processes and technology platforms across the business. We see positive opportunities to continue to expand our client base. Fundamental to this is ensuring we have skilled staff who continue to deliver quality services to our clients, as well as encouraging ideas which lead to innovation and an evolution of our service offerings.

Our strong results in raising new assets, the MAS transaction and the 10% improvement on last year's earnings from core operating activities has all translated favorably into the Company's share price. I am normally very reticent in drawing attention to the share price, as market forces beyond the board and management's control can have significant impacts on the share price. In fact, this has been readily apparent in the volatility of our share price over the past few months. However, I mention this only from the perspective that I think this shows an acknowledgement by the broader market in the level of success the business achieved.

3 Potential termination benefits

Before I move onto discussing our business strategy, I would like to say a few words in relation to Resolution 5 on the agenda, which relates to the request for shareholders to approve potential termination benefits for eligible executives. This Resolution is necessary as the benefits exceed those provided for in S200B of the Corporations Act.

The Company is aware that termination benefits for executives is a contentious area, as demonstrated by the negative opinion expressed by a number of proxy advisers on this resolution. However, the focus on the fact that the benefits are equal to more than one year's fixed remuneration ignores an important aspect of the issue. The higher than normal ratio is due the other side of the equation. The fixed remuneration is much lower than normal.

The Board acknowledges that this is a difficult area for the Group. As an Australian listed company, we are of course required to comply with S200B of the Corporations Act. As a company which is essentially a United States based company in its operations, this presents some challenges. It creates a direct conflict in our ability to have a remuneration structure which complies with the industry norms in the key jurisdiction in which we operate. It is common for US companies in the asset management space to have a relatively low fixed remuneration component and a high variable compensation component. This allows for flexibility in rewarding performance through all levels of the business, and provides a nimble mechanism for the Company to adjust remuneration for fluctuations in operating performance. In the investment management industry, this is a reality.

This arrangement does provide issues when complying with S200B requirements, which limits termination benefits to no more than 1 times the fixed remuneration of an executive. Given the relatively low fixed component in our executive remuneration, the issues created include:

a) having remuneration arrangements which are not comparable with our US peers, which would be detrimental in our ability to attract and retain talented individuals;
b) not being able to honour the existing arrangements which our US-based key management personnel had in place when we acquired the Lighthouse business back in 2008, which would place the Group in a difficult legal position; and
c) due to jurisdictional differences in law, having limitations on our ability to enforce non-compete arrangements for key executives, which, given the nature of our business, could expose us to significant business risk.

It is of course open to us to attempt a wholesale re-structure of our remuneration structure, which would involve re-negotiation of arrangements with all of our long-serving key executives. The key component to this would involve significantly increasing fixed remuneration. While this would "raise the bar" on the S200B termination benefit threshold, it would also add significant annual cost to the business to protect against what we expect will be an ad-hoc future occurrence.

All of these issues have been taken into consideration when structuring the potential termination benefits for which we are seeking approval. I thank the majority of shareholders who have been able to look beyond requiring the Group to apply Australian norms to a Unites States operating environment when providing their vote. Whilst we acknowledge the criticisms of the proxy advisers who recommend against Resolution 5, we encourage any shareholder who has concerns regarding Resolution 5 to share these concerns with us directly. It is a pity that some proxy advisers do not take into account the issues of the market in which we operate and the benefits of a low fixed remuneration, when recommending a vote against Resolution 5. As more Australian listed companies compete and operate internationally, this will increasingly become an issue. Surely we don't wish to handicap these companies that seek to expand overseas for the benefit of their shareholders.

4 Strategic goals

Our strategy for growing the business continues to be built on 4 main pillars:

4.1 Investment performance

The core of the Lighthouse business is creating consistently positive, low-volatility investment returns for clients. Lighthouse will continue to develop its data analytics capability so that we have the tools to appropriately risk manage our portfolios.

We acknowledge that the hedge fund industry as a whole continues to be challenged in meeting performance expectations. The second half of the 2018 financial year brought changes to the investment landscape. The past few months have shown market volatility arising from the frequent shifting of market sentiment. Global markets are unsettled as they face uncertainty in the form of trade tensions and the continued potential for escalating tariffs, inflation starting to rear its head, and coordinated global growth beginning to diverge. All of this translates to a challenging global investment environment, and we think it is quite possible that, at some point, we will see a market where economic cycles, equity multiple compression, and the unwinding of global quantitative easing creates a scenario where both stocks and bonds actually lose money at the same time.

We intend to use our unique and growing data set to helps us analyse our performance and lead us in the direction of producing better results for our clients. Our multi-strategy funds, built to maintain low correlation to both equity and bond markets, may prove quite beneficial if the trusted diversification benefit between stocks and bonds breaks down.

4.2 Growing AUM

For our shareholders, continuing to grow AUM is a key objective for the business. To do this, we place a high priority on delivering quality client service, as this underpins our ability to attract and retain clients.

In terms of our distribution efforts, Lighthouse will continue to place particular focus on opportunities in Asia, the Middle East and Europe, where we have had demonstrated successes in recent years.

In the coming year, we will also focus on the opportunity to expand our range of client services through providing a “Platform” service. This business line will utilise our existing Managed Account Program capabilities and resources, and focusses on providing clients with access to all the benefits that our proprietary platform can provide. Whilst Lighthouse will not provide investment advisory services to Platform clients, the benefits we can offer to these types of clients could include better pricing with other service providers, efficient access to comprehensive data and reporting, and industry-leading treasury and risk management functionality. Without the investment advisory component, fees for Platform clients are lower, however we anticipate that the potential mandate size for these clients is exponentially higher than the typical investment mandate client. We see this as an excellent area for future growth, and efforts for building out this business line will be a focus over the next few years.

4.3 Innovation

As I mentioned before, we see innovation as a driving force in our business, as well as in the asset management industry and financial services industry as a whole. We look to gain market intelligence in how ongoing evolutions in technology can benefit both our business and our clients, and we do this through a combination of internal development, engaging external experts, and making strategic investments in other external companies who are developing innovative products and or technologies. All of this is done with a view to innovating in our day-to-day operations.

4.4 Acquisition opportunities

Much of our focus in this coming year will be on ensuring the smooth integration of the MAS clients into the existing Lighthouse operations. However, we will continue to look at opportunities for expanding our business if and when they arise. As a Board we will be diligent in evaluating any such opportunities to satisfy ourselves that a transaction will create and maintain value for the Group.

In closing, I would like to take this opportunity to thank my fellow directors. They each contribute their own particular expertise and skills so that together we form a cohesive and productive team in guiding the Group.

I would also like to extend the Board's appreciation to all of our staff for their tremendous efforts over the past year. As I have said before, we are fortunate to have employees who are dedicated to serving our clients' needs and finding ways to innovate and grow our business, and 2018 has demonstrated that they are indeed very good at that. We hope that our shareholders are pleased with the performance of the Navigator Group for the 2018 year, and look forward to you continuing to be with us as our journey continues.