



2013 Annual General Meeting

Chairman's Address, Mr Spencer Young

27 November 2013

Good morning ladies and gentlemen and welcome to the 2013 Annual General Meeting of HFA Holdings Limited.

As you know, HFA is the listed Australian holding company for a specialist global funds management business.

HFA comprises two key business segments:

- the United States based Lighthouse Partners, LLC; and
- Australian based Certitude Global Investments Limited.

Lighthouse utilises its exceptional proprietary managed account program in both its Investment Funds business and its Customized Client Solutions businesses. The data which is able to be accessed through Lighthouse's managed accounts structure has proven invaluable in underpinning the management and performance of the various Lighthouse Investment Fund portfolios, and also offers key clients the ability to tailor their portfolios and access administration and risk management data which meets both their investment needs and their internal & external reporting obligations.

A key growth area for 2013 was the Customised Client Solutions business for Lighthouse, which attracted a number of new clients and allowed existing investment fund clients with sufficient scale to take advantage of the ability to tailor their alternative investment exposure.

Lighthouse offers clients the ability to access the benefits of the managed account structure in their own customized portfolio. They work closely with large strategic investors to customize their alternative investment exposure as well as meet their specific needs across middle office, risk monitoring and investment advisory services.

The flexibility and control this offers to clients is very attractive, and offers a robust solution to the new pressures and expectations which exist on pension fund, insurance and other institutional clients since the GFC.

Certitude has continued to make Lighthouse investment products available to both retail and institutional Australian and New Zealand investors. Pleasingly, the key Australian funds, the LHP Diversified Investments Fund and LHP Global Long/Short Fund have performed well in their peer group. The LHP Diversified Investments Fund earned a highly recommended rating from Lonsec this year, a laudable achievement for this fund which has a 12 year track record and managed to survive the GFC intact whilst all its competitors at that time failed.

As part of its diversification strategy, for the past three years Certitude has also focused on adding additional global investment managers to its offerings to Australian retail investors. Certitude this year added US based Columbia Management and launched a global credit fund in April.

In terms of the Group's overall operating and financial results, we are pleased with the results achieved by the Group this year.

Assets Under Management and Advice increased by 15%, to close the 2013 financial year at USD 7.6 billion. This growth was led by Lighthouse.

This, combined with a reduction in third party distribution costs and a marginal reduction in other operating expenses resulted in a 16% increase in EBITDA for the Group.

For the third consecutive year, HFA has paid dividends to our investors, with a final dividend of USD 3.0 cents per share, resulting in shareholders receiving a total of USD 6.0 cents per share, fully franked, in relation to the 2013 year.

In the 12 months to 30 June 2013, Group net operating income increased to \$57.5m, up 5% on the prior year.

Group revenue remained consistent with the prior year, and the slight reduction in management fees was supplemented by the \$2.8m received in performance fees. Whilst the Group is no longer reliant on performance fee revenue as a major component of its income, it is always pleasing to see the additional evidence of positive product performance reflected in the Group result.

The trend towards decreasing net management fees has continued as expected this year, and was in line with expectations as the assets in Lighthouse's Customised Client Solutions business grew to represent 41% of AUMA, compared to 24% at June 2012.

Overall, Group operating cash flows remained strong, and easily allowed the Company to pay a strong dividend yield to shareholders as well as comfortably service our long term finance facility.

The Group balance sheet has continued to reflect the benefits of our strong cash flow, and net cash has been accumulating year on year. For a small listed company, HFA has some challenging circumstances when contemplating capital management policy, such as our relatively small free float of shares and covenants attached to our Convertible Notes and finance facility.

The board looks at all appropriate opportunities to enhance shareholder value, and will be considering how to best utilise its existing cash resources to enhance total shareholder return.

For the second year in a row, the group has achieved a 15% growth in AUMA.

As at 30 June 2013, Lighthouse had \$6.8 billion of AUMA, and has hit the milestone of managing over US \$7.0 billion subsequent to year end. The increase of over \$ 1.0 billion for the 2013 financial year was due equally to investment performance and net inflow.

Certitude maintained its AUMA for the 2013 year at \$900m. The fall in assets subsequent to year end is due to the successful closure and return of funds for the next of its legacy structured products which matured on 30 September 2013. As management fees had been waived on this fund since 2008, it's closure does not impact revenue of the Group.

The Lighthouse funds continue to perform true to label, delivering consistent returns with low volatility when compared to equity benchmarks.

Lighthouse's managed account platform has continued to provide a powerful resource for the business in managing its investment products, providing true daily transparency and valuation of asset positions, and allowing proactive blending of each fund's underlying managers to achieve their return objectives in a global investment landscape which has continued to throw up challenges.

Certitude products have also demonstrated solid performance against their respective peers, most notably the Threadneedle funds and our own Lighthouse funds.

The business is receiving positive reception from various investor segments in relation to its funds and investment partners.

Those of us who have been in the investment world a long time know that predicting the future is never an exact science. Whilst I trust that our own portfolio managers and those of our strategic partners are well equipped to navigate the difficult waters of global markets, we as a board and management team look beyond this to establish the foundations for growing the Company.

The most important way for us to do this is to look at the challenges which face our clients, and mold our business to provide the solutions they will need now and in the future. Lighthouse did this when they started to develop and build their proprietary managed account platform even before the GFC taught us the value of transparency and control of investments and timely risk management information.

And with this track-record of fore-sight, we are excited about the way in which Lighthouse continues to transform its business, utilising its managed account program to broaden the solutions it can offer for clients seeking to invest in alternative assets. A combination of timely, accurate data and skilled judgement provides the best opportunity for sustainable investment performance. The data that Lighthouse is

capturing on a daily basis is powerful and is used to actively improve the investment decision making process in its own funds, as well as to provide valuable investment and risk management tools to customised clients.

With the same foresight, Lighthouse is also looking to the retail investor as a future distribution channel. The relationship with 361 Capital is the first step towards creating products which will appeal to the US retail investor, and open up a previously untapped investor segment to Lighthouse.

Australian conditions present an excellent opportunity for Certitude to market these benefits on home soil. Certitude is targeting key institutions, multi-managers and family offices with mounting interest in the investment capabilities of our global partners, and the investment and managed account capabilities of Lighthouse.

Whilst the latest position by APRA under the Stronger Super Reforms appears to be that superannuation trustees will not need to report on hedge fund investments on a look-through-basis, we consider that pressure from regulators and superannuation trustees to have transparency into underlying asset positions will continue regardless, and that the managed account program offers a tangible solution to these needs.

We also believe that the ability to offer daily or weekly Lighthouse products in Australia present an amazing springboard for growth of these Australian funds, and we will be keenly monitoring progress to this end.

Both our US and Australian businesses will continue to work hard at positioning the business to provide investment products and solutions that will assist clients in meeting their investment, risk management and reporting needs both now and into the future.

Thank you.