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HFA Holdings Limited

“First Half Review”

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New York Chicago Florida London Hong Kong Brisbane Sydney Melbourne

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# AGENDA

1. Introduction
2. Business Profile
3. Fund Performance
4. Industry Update
5. Outlook

# INTRODUCTION

# Review of International Events - 2008

The 2008 Global Financial Crisis triggered a complete re-evaluation of the concepts of "value" and "risk"

- Sub-prime Crisis**
  - Triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States.
  - Crisis created by excessive leverage and poor underwriting
  - Securities (CDOs etc) backed with sub-prime mortgages, widely held by financial firms, have either lost most of their value or questions remain as to how they should be valued.
  
- Banking Crisis**
  - Questions over asset quality and solvency of banks created a lack of confidence, resulting in the collapse and subsequent bailout of many banks and financial institutions (*Bear Sterns, Lehman Brothers, Washington Mutual, Merrill Lynch, AIG, Northern Rock, RBS and HBOS with more likely to come*).
  
- Credit Crisis**
  - The de-leveraging process by banks created (post Lehman Bros failure) a freeze in bond and commercial paper markets with credit, fixed income and other markets also affected / freezing up.
  
- Economic Crisis**
  - The combination of these events has begun to impact real economies with most developed countries either in or approaching recession.

# Australian Financial Events - 2008

The government guarantee on bank deposits significantly undermined confidence in some managed investments and the funds management sector as a whole

When the most liquid and available asset (cash) freezes it is inevitable all other asset classes will be affected

## Credit Crisis

- Securities backed with sub-prime mortgages, widely held by US/Euro and other international financial firms, lose most of their value, causing a large decline in the capital of many banks.
- Many US/ Euro banks and financial institutions are bailed out by government-backed capital injections. Australian banks report only mild balance sheet impact, however questions remain over bad debt exposures.

## Government Deposit Guarantee

- Negative publicity around the bailout of major US/Euro banks and growing concerns about a complete collapse of the financial system prompts Australian government to guarantee bank deposits.

## Flight to Deposits

- Deposit guarantee combined with equities market crash and economic uncertainty prompts investors to switch out of some forms of managed investment (unlisted property, mortgage funds, income funds) into government-secured bank deposits.

## Managed Investment Fallout

- Abnormal rise in redemptions forces some fund managers to freeze redemptions, further undermining confidence in the sector.

# Impact of Global Financial Crisis on Hedge Funds

A smaller pool of better managers, with greater transparency, will provide more opportunities for fund of hedge fund managers to generate high risk-adjusted returns in the future

## Challenges

- Major dislocation of global financial systems created unprecedented trading environment
- Complete re-evaluation of all "value" and "risk" assumptions across the global financial system
- Reduced access to financing/leverage facilities
- Market desire for greater transparency and simpler structures for corporations, financial services providers and hedge funds
- Reduced confidence in hedge funds brought about by failure to deliver "absolute" returns and some high profile failures (Madoff)
- Government intervention in the functioning of listed capital markets (eg: ban on short selling)
- Distortion of capital flows brought about by Government guarantees on bank deposits and cash / money market accounts.

## Facts

- Fund of Hedge Fund performance has dramatically outperformed traditional asset classes throughout the current crisis
- Investors have benefitted from the diversification which is at the core of the fund of hedge fund investment strategy
- Firms like HFA with strong risk management, due diligence and corporate governance standards are well positioned to better preserve capital during market dislocation
- Many sub-standard hedge funds and fund of hedge funds will not survive and the industry faces the prospect of greater regulation

# REVIEW OF RESULTS

as at 31 December 2008



# Business Scorecard

	HFA Asset Management		Lighthouse Partners		HFA Holdings		
	30-Jun-08	31-Dec-08	30-Jun-08	31-Dec-08	30-Jun-08	31-Dec-08	% Change
\$M							
Funds Under Management	2,357	1,701	5,516	5,462	7,866	7,162	-9%
Assets Under Management	3,849	3,377	5,516	5,462	9,368	8,838	-6%
Net Inflows	324	(99)	211	(417)	535 <sup>1</sup>	(757) <sup>2</sup>	(241%)

	HFA Asset Management		Lighthouse Partners		HFA Holdings		
	31-Dec-07	31-Dec-08	31-Dec-07	31-Dec-08	31-Dec-07	31-Dec-08	% Change
\$M							
Management Fee Revenue	24.9	23.5	-	41.3	24.9	64.8	161%
Performance Fee Revenue	8.1	-	-	0.6	8.1	0.6	-92%
Expenses <sup>3</sup>	7.1	6.8	-	27.1	7.1	33.9	378%
EBITDA	13.6	8.1	-	13.9	13.6	22.0	62%

1. 12 months to 30 June, 2008.
2. 6 months to 31 December, 2008.
3. Expenses are net of other income and include equity settled transactions.

# Financial Overview

\$M	31 December 2008	31 December 2007	% Change
Operating revenue	65.6	33.0	99%
EBITDA (before EST <sup>1</sup> )	35.4	13.6	161%
EBITDA	22.0	13.6	62%
NPAT	(570.3)	16.5	-
EPS	(124.085)	7.060	-
Adjusted Cash EPS	6.0	3.6	70%
Dividend per share	-	2.1	-100%
Weighted Average Shares on Issue	459,582,661	233,768,399	96%

# Financial Results

\$M	31 December 2008	31 December 2007	% Change
Management fee revenue	64.8	24.9	161%
Performance fee revenue	0.6	8.1	(93%)
Other	0.2	-	100%
<b>Operating Revenue</b>	<b>65.6</b>	<b>33.0</b>	<b>99%</b>
Investment costs	(9.7)	(12.3)	-21%
<b>Net Operating Income</b>	<b>55.9</b>	<b>20.7</b>	<b>171%</b>
FX gain on hedging contract	1.2	-	100%
Expenses	(21.7)	(7.1)	206%
<b>EBITDA (before EST)</b>	<b>35.4</b>	<b>13.6</b>	<b>161%</b>
Equity settled transactions	(13.4)	-	(100%)
<b>EBITDA</b>	<b>22.0</b>	<b>13.6</b>	<b>62%</b>
Depreciation and amortisation	(7.5)	(0.7)	971%
Impairment losses	(596.6)	-	-
Net interest expense	(2.8)	1.6	(275%)
FX gain on financial instruments	-	8.9	100%
<b>Profit/loss Before Tax</b>	<b>(584.9)</b>	<b>23.4</b>	<b>--</b>
Income tax (expense)/benefit	14.6	(6.9)	(312%)
<b>Profit/(loss) After Tax</b>	<b>(570.3)</b>	<b>16.5</b>	<b>-</b>

## Adjusted Cash EPS

\$M	31 December 2008	31 December 2007	% change
NPAT (including FX gain)	(570.3)	16.5	-
<b>Add Backs</b>			
FX gain on hedging contract	-	(8.9)	-100%
Depreciation and amortisation	7.5	0.7	100%
Impairment losses	596.6	-	100%
Equity settled transactions	13.4	-	100%
<b>Adjusted cash earnings</b>	<b>47.2</b>	<b>8.3</b>	<b>468%</b>
Weighted average number of shares	459,582,661	233,768,399	96%
<b>Adjusted cash earnings per share</b>	<b>10.2</b>	<b>3.6</b>	<b>183%</b>

# Key Drivers of Result

The first half result was characterised by strong underlying cash earnings but severely impacted by acquisition related impairment expense

**Net Operating Income**  
(up \$35.3m, 171%)

- Management fees have increased by \$39.9m resulting from the contribution from Lighthouse of \$41.3m
- Performance fees have decreased by \$7.5m reflecting product performance in the difficult market conditions

**Expenses**  
(up \$13.4m, 189%)

- Increased expenses due largely to the inclusion of Lighthouse expenses for the period of \$14.1m
- HFA Asset Management expenses have decreased by \$0.6m due to tight expense control
- Includes FX on operating activities

**Equity Settled Transactions**  
(up \$13.4m, 100%)

- An expense of \$13.4m relating to employee incentive schemes was recognised during the current reporting period. This is a non-cash expense to the company

**Impairment**  
(\$596.6m)

- An impairment expense has been recognised in relation to goodwill and management rights in the Australian business (\$10.9m) and goodwill and other intangibles relating the acquisition of Lighthouse (\$585.6m)

# Corporate Debt

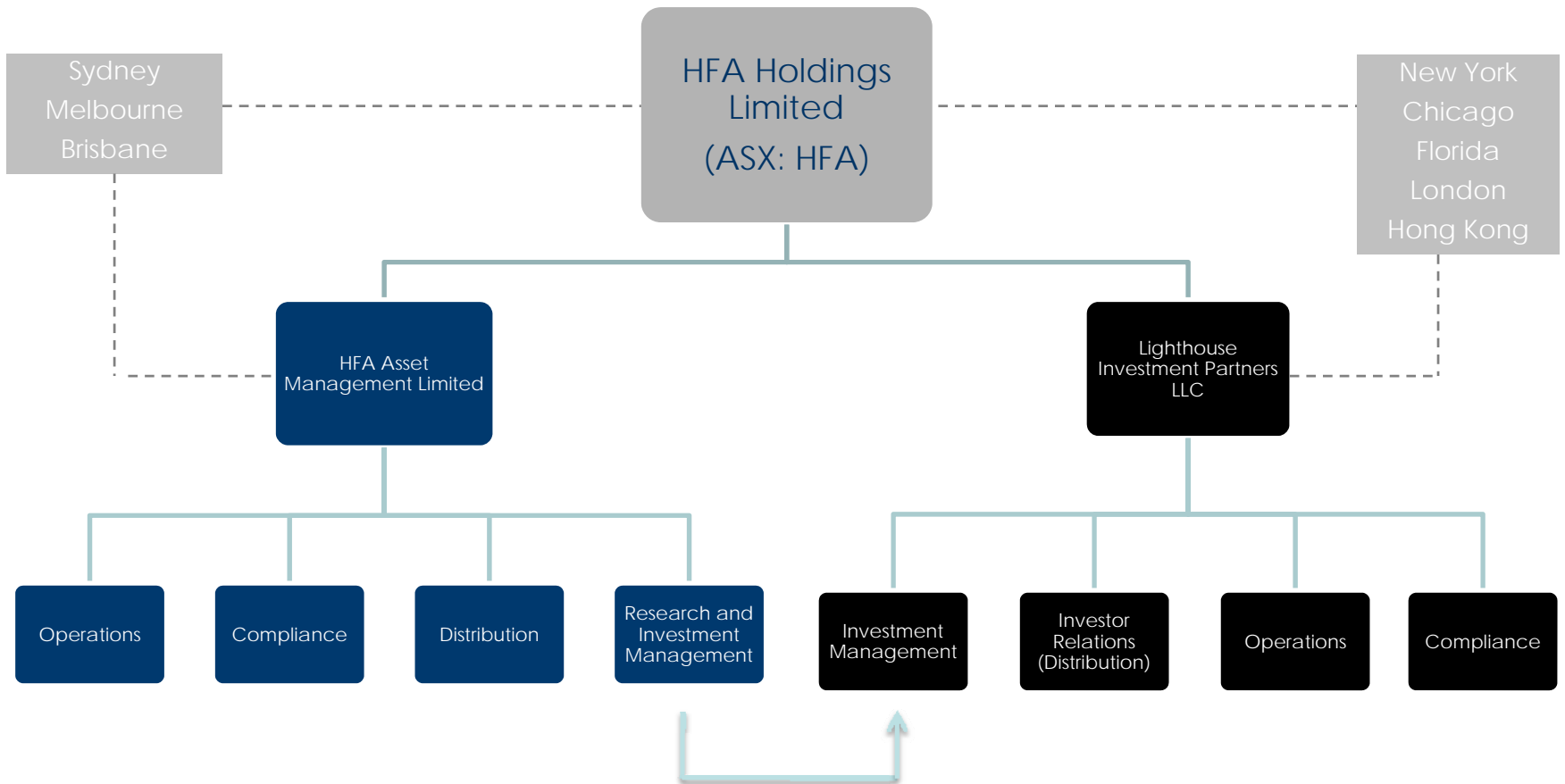
## Agreement of terms with bank for restructure of debt facility

- As previously advised, the Company has been in negotiations with its bank regarding its debt facility
- The Company has received credit department approved terms from the bank regarding a restructure of the facility which are acceptable to the Company's board of directors
- The agreed terms include a one year extension to the facility, extending the maturity date of the facility to 1 November 2011
- The new terms and conditions will come into effect when documentation has been prepared and executed. The Offer is conditional on completion of new documentation by no later than 20 March 2009.
- As at 31 December 2008, the facility was classified as a current liability in the balance sheet, as during the negotiation process the Company did not have an unconditional right to defer settlement of the outstanding facility balance for at least twelve months from 31 December 2008.
- The debt facility will be reclassified as non-current on completion of the new documentation for the agreed restructure of the facility.

# **BUSINESS PROFILE**

as at 31 December 2008

# Corporate Structure





# International Organisation

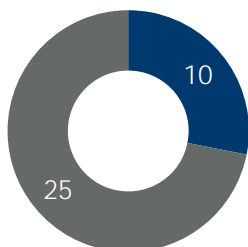
## International Presence



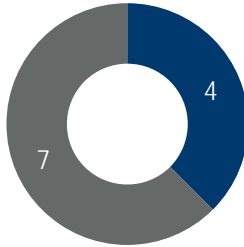
## Comment

- HFA is a truly global absolute return investment manager with more than 100 staff in locations around the world.
- International presence provides local knowledge on a global scale.

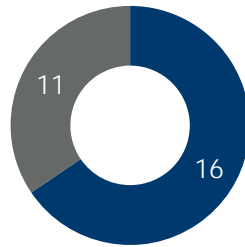
Operations  
People - 35



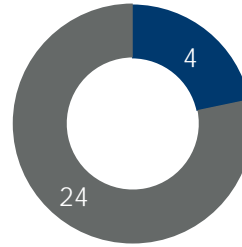
Compliance  
People - 11



Distribution  
People - 27



Investment  
People - 28

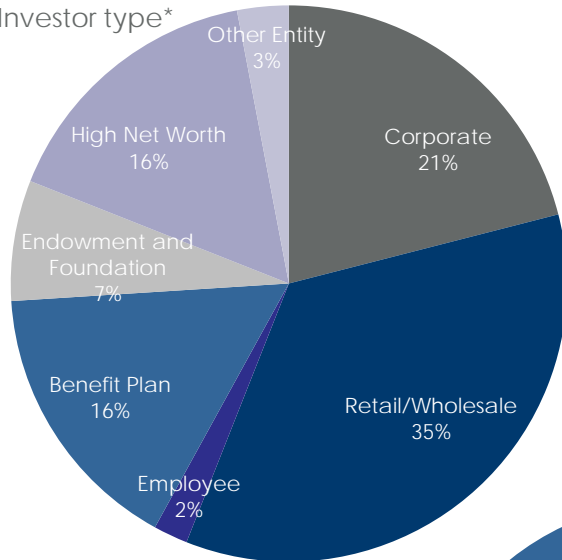


- Australia
- USA/Europe/Asia

# Investor Diversity

## Investor Diversity

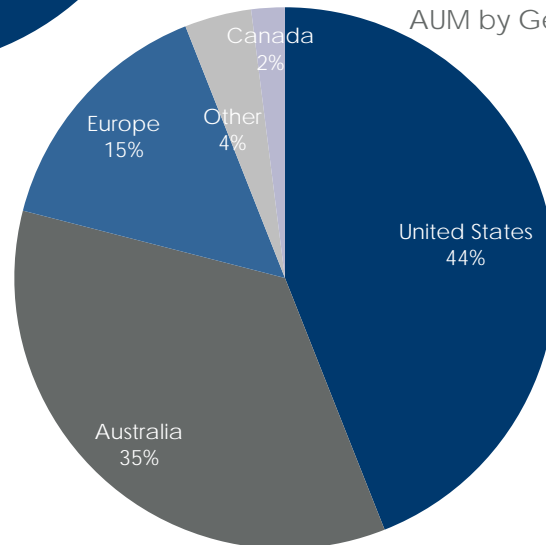
AUM by Investor type\*



## Comments

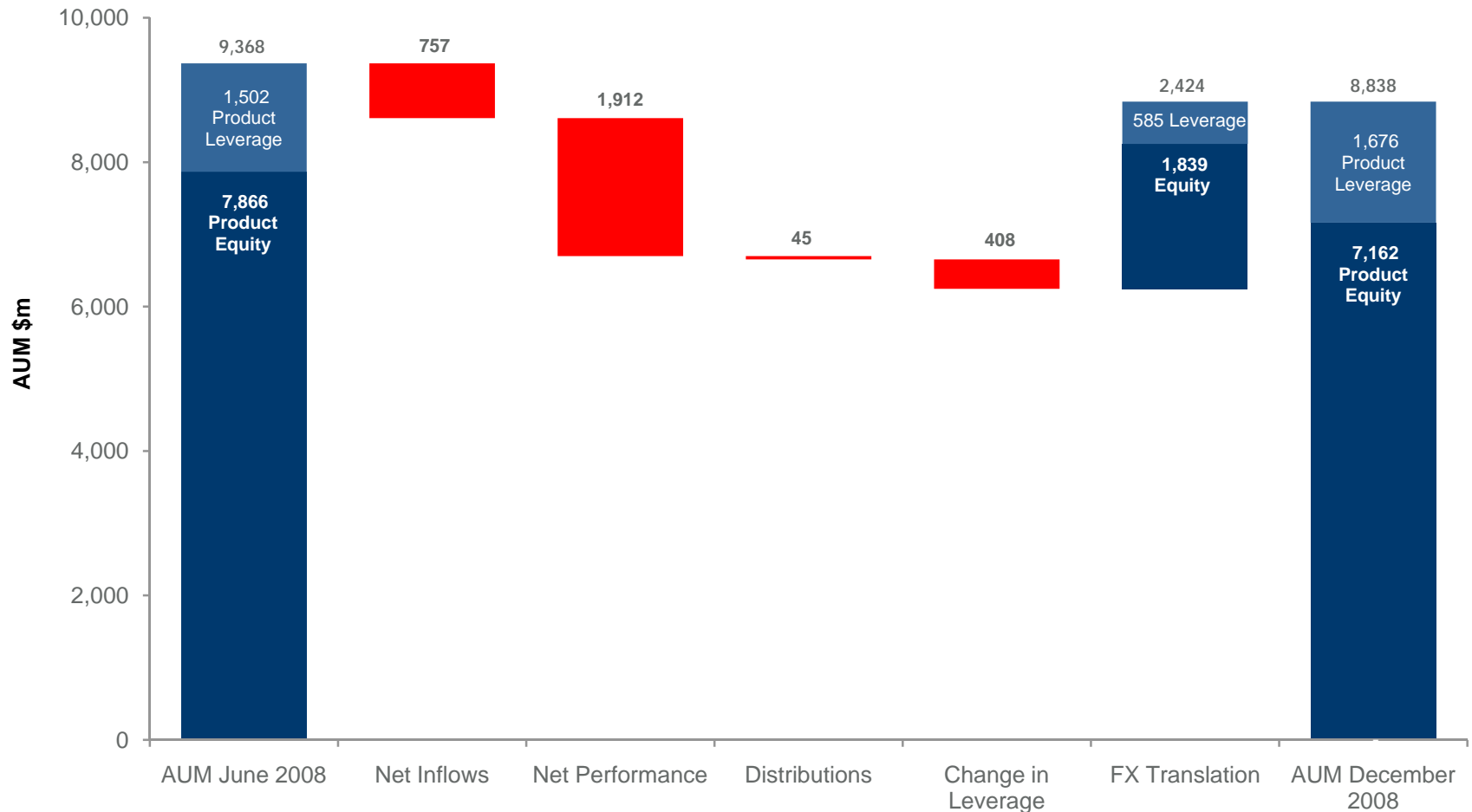
- HFA fund channels are highly diversified by both investor type and geography.
- Diversification reduces risk associated with any single market.
- Lighthouse acquisition provided stronger presence in both global institutional market and high net worth market

AUM by Geography\*



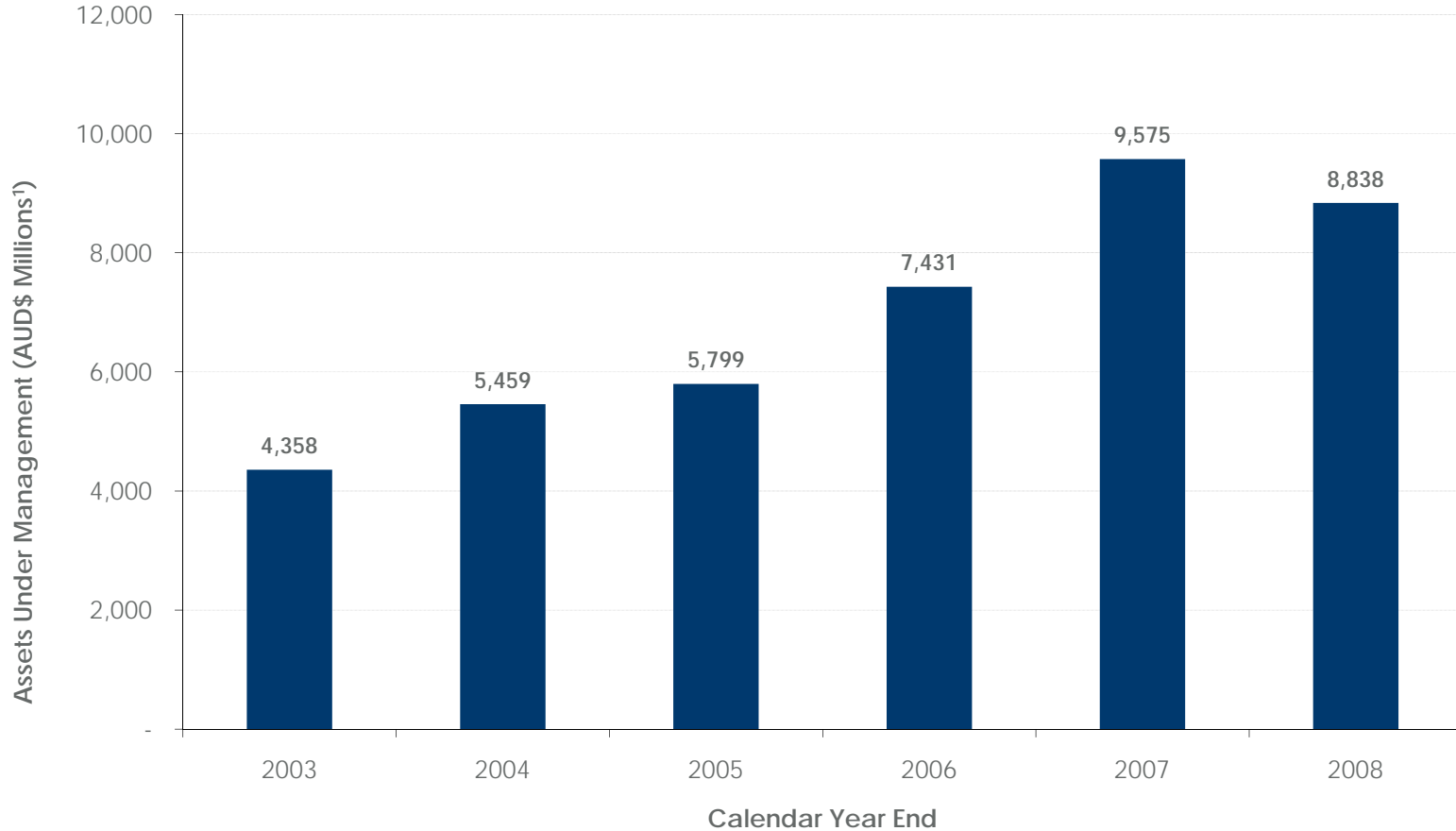
# Group AUM – down 6% June to December 2008

HFA Holdings - AUM (AUD) Movements to 31-Dec-08



# Strong track-record of AUM growth

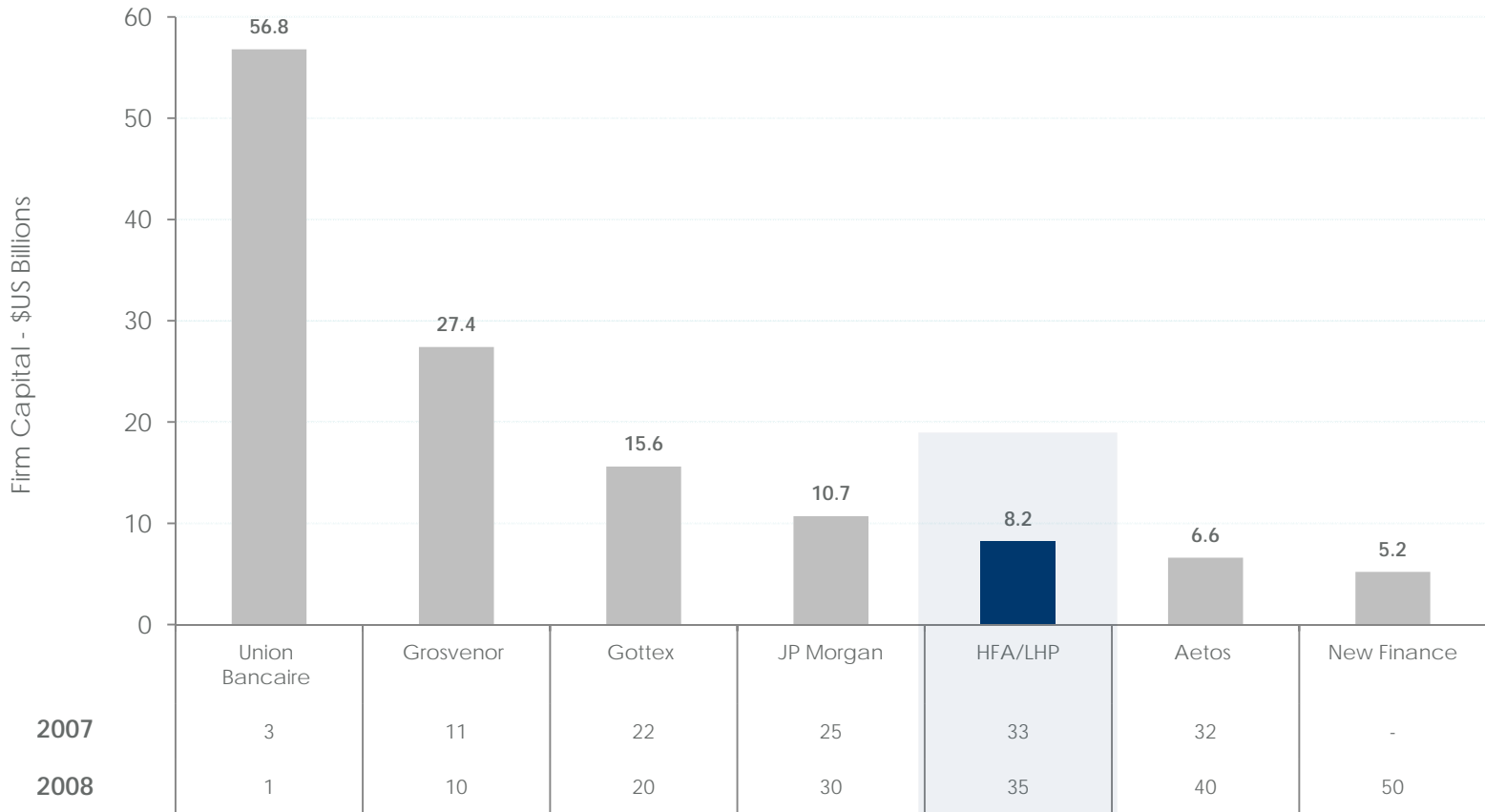
Group AUM Growth (calendar year)



1. AUD:USD FX conversion rates at year end were; 2003 - 0.75, 2004 - 0.779, 2005 - 0.7337, 2006 - 0.7913, 2007 - 0.8816, 2008 - 0.6928. Rates sourced from RBA.

# Global Ranking... in the top 50

## Global Fund of Hedge Fund (FoHF) Rankings



Global Rankings at 30 June, 2008

# FUND PERFORMANCE

as at 31 December 2008

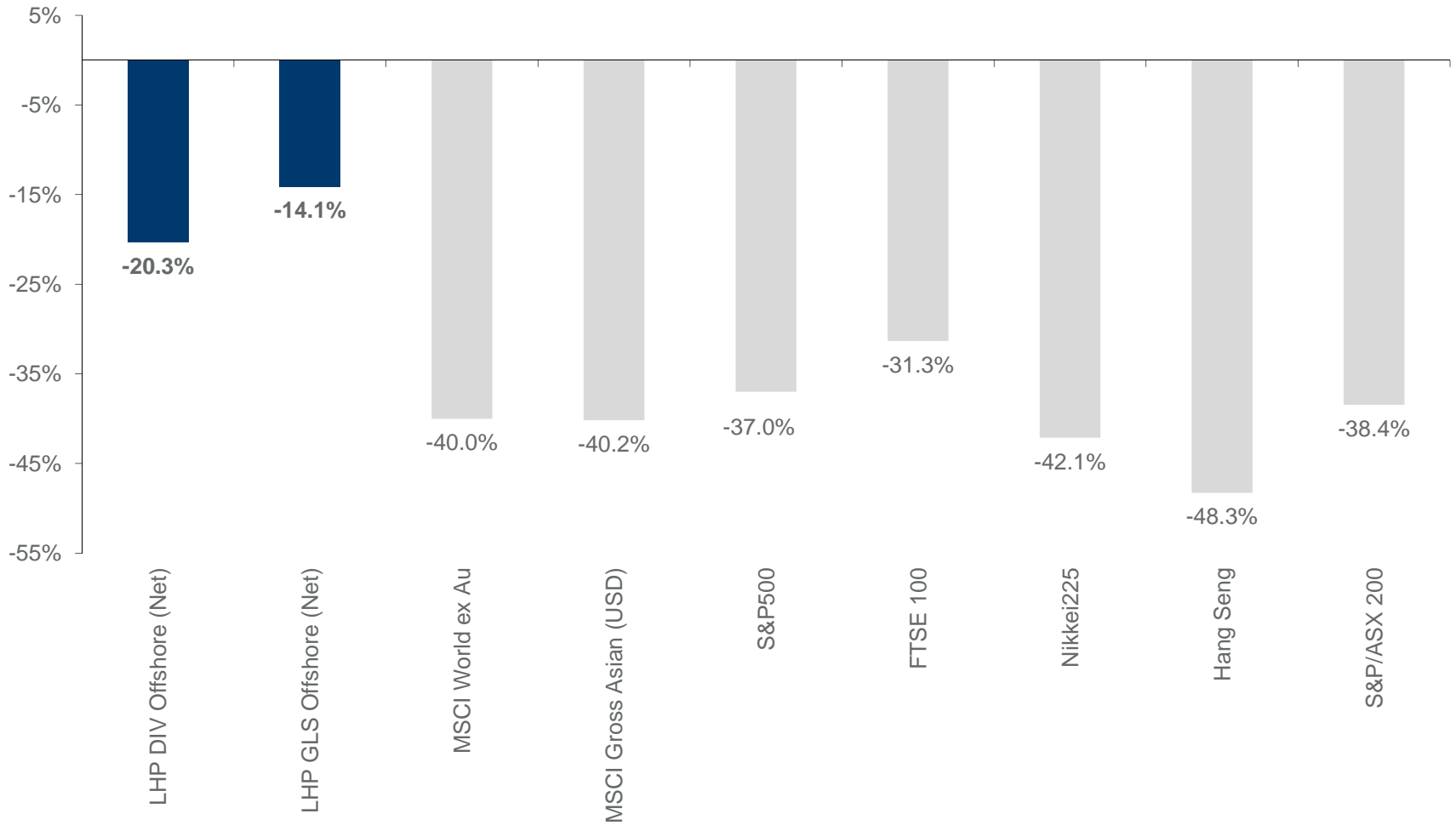
# Product Performance

## Comparative Fund Returns to 31 December, 2008

	LHP Diversified Fund	LHP Global Long Short Fund	<i>MSCI World Ex Au (USD)</i>	<i>MSCI Gross Asian (USD)</i>	<i>S&amp;P/ASX 200 Accumulation Index</i>	<i>Standard &amp; Poor's 500 TR Index (US\$)</i>
1 Month	-2.80%	0.05%	3.17%	8.80%	-0.28%	1.06%
3 Months	-10.55%	-2.32%	-21.51%	-14.23%	-18.25%	-21.94%
6 Months	-19.89%	-9.81%	-33.11%	-31.30%	-26.79%	-28.48%
12 Months	-20.28%	-14.12%	-40.02%	-40.17%	-38.44%	-37.00%
2 Years p.a.	-6.47%	-1.08%	-19.14%	-18.04%	-15.47%	-18.47%
3 Years p.a.	-1.26%	2.90%	-7.67%	-8.33%	-3.90%	-8.36%
4 Years p.a.	0.97%	5.10%	-3.57%	-0.98%	2.18%	-5.21%
5 Years p.a.	1.98%	n/a	-0.14%	2.27%	6.89%	-2.19%
Inception p.a.	3.46%	5.94%	Since inception returns are different for various funds			
Inception Total	30.86%	33.45%				

- LHP Diversified Fund Ltd inception being February 2001
  - LHP Global Long Short Fund Ltd inception being January 2004
- Source: Lighthouse, MSCI and Bloomberg

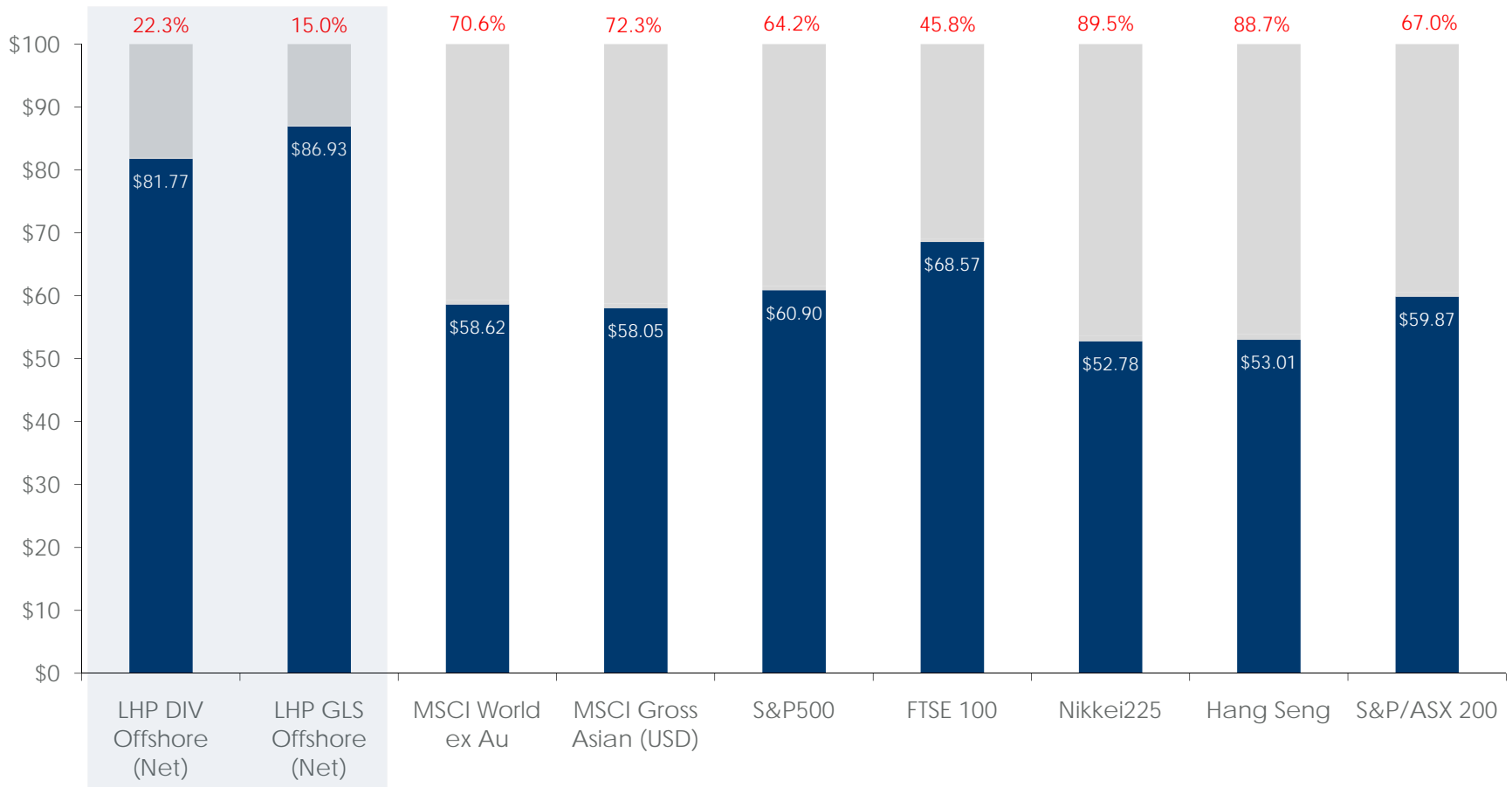
## Core Fund Performance: 1 year to December 2008





# Strong Relative Outperformance for Lighthouse Funds

Period 1 October, 2007, to 31 December, 2008

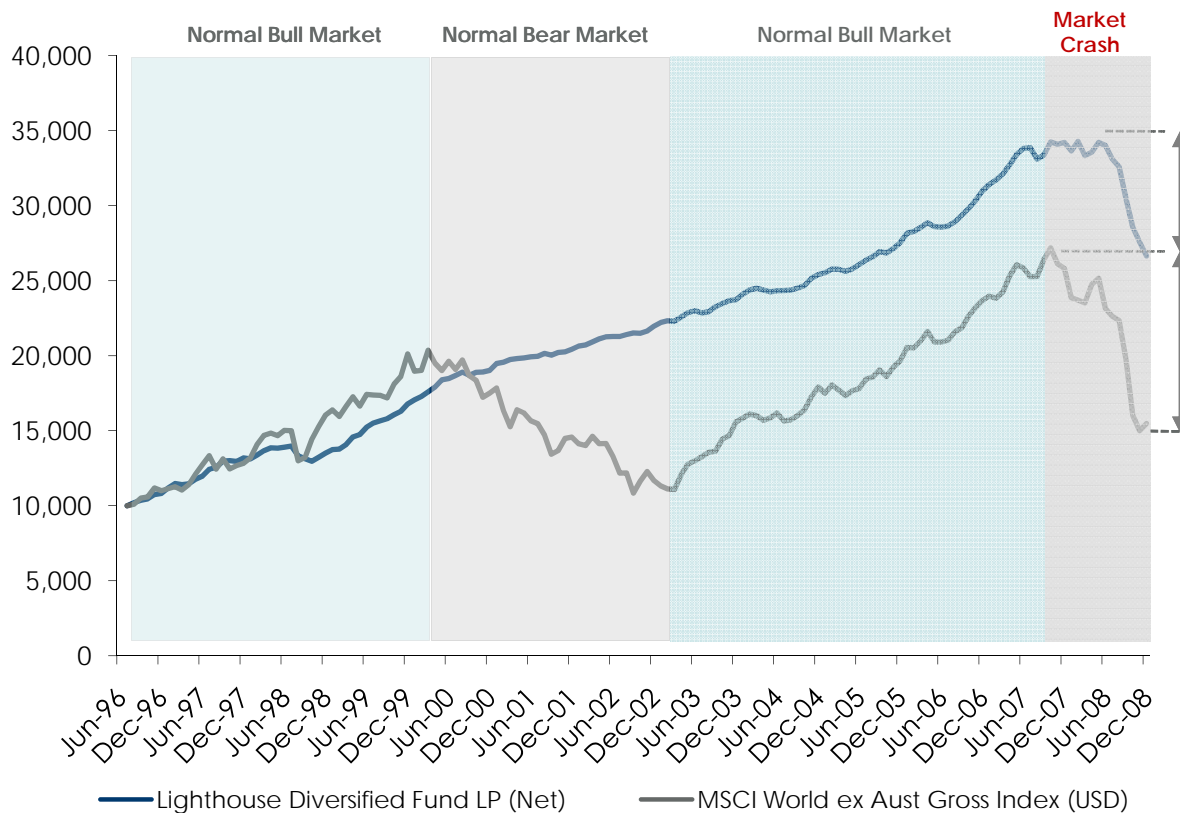


Capital retained from an initial \$100 invested AND the % return required to restore the initial capital investment

# Capital Preservation

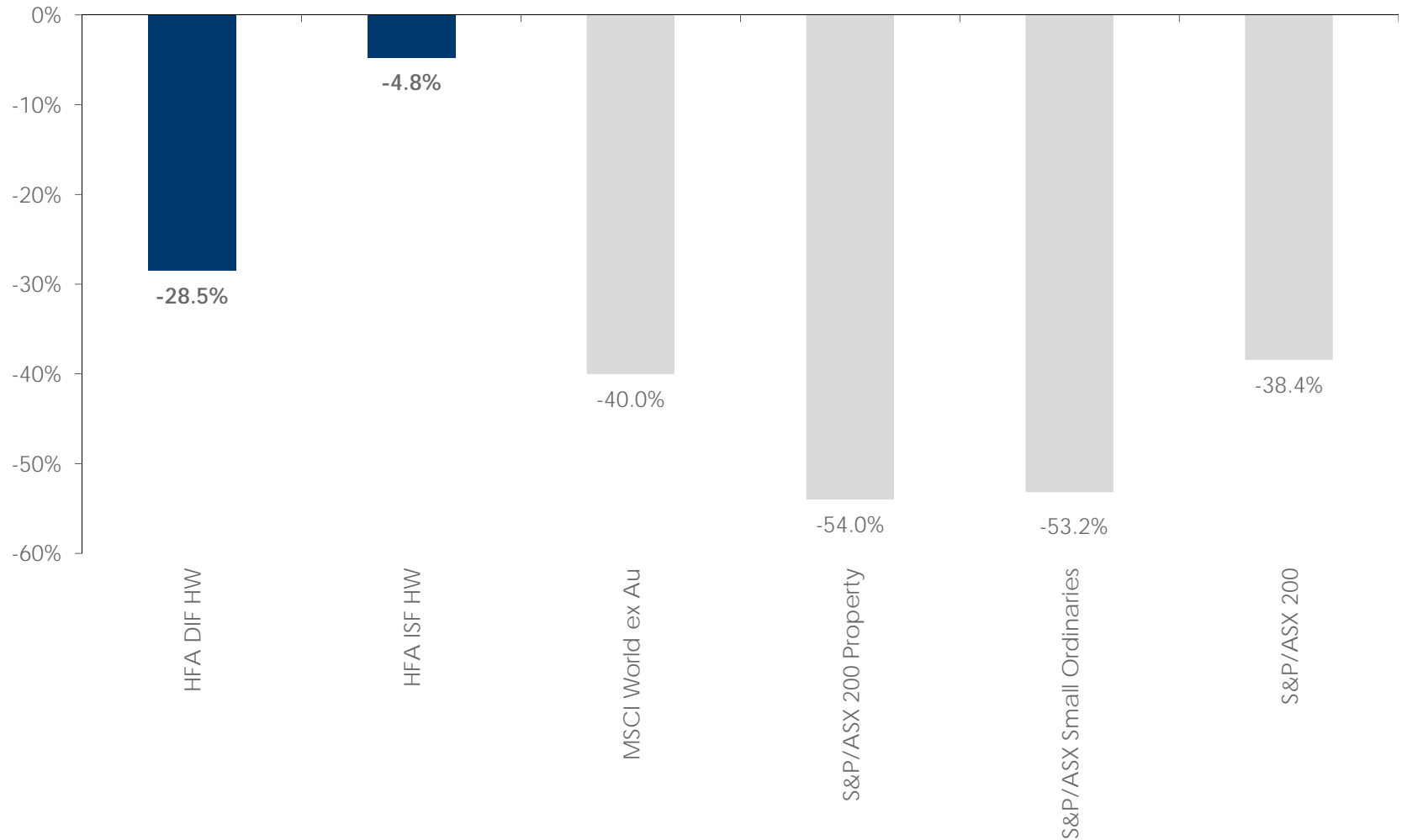
Preserving capital improves long term performance

Comments



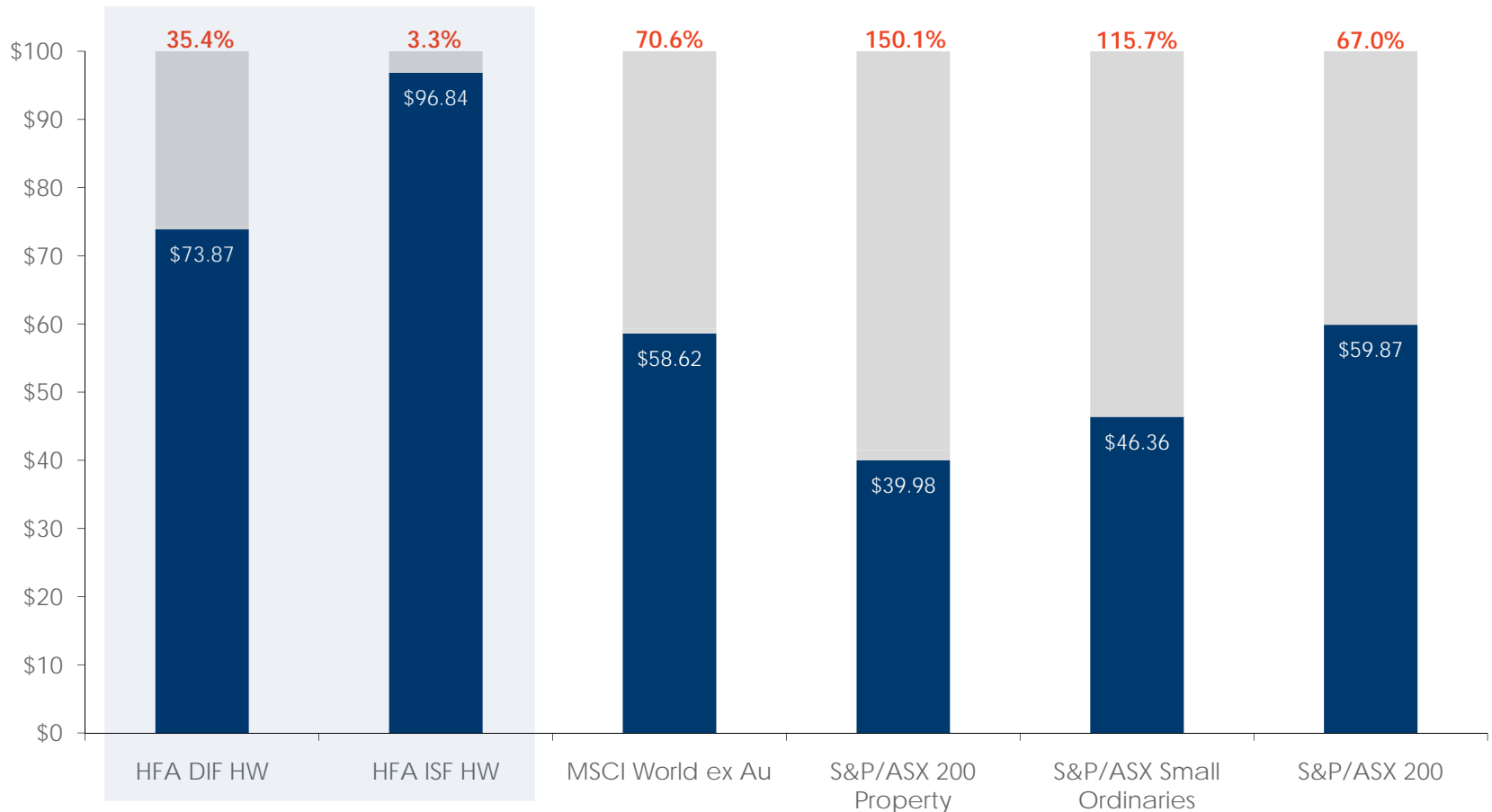
- Proven ability to generate profits in **normal rising or bull markets**
- Proven ability to protect capital or generate moderate profits in **normal bear markets**
- Demonstrated capital preservation character in “**crashing markets**”.

# Strong Relative Outperformance for Australian Domestic Investors 1 year to December 2008



# Strong Relative Outperformance for Australian Domestic Investors

Period 1 October, 2007, to 31 December, 2008



**Capital retained from an initial \$100 invested AND  
the % return required to restore the initial capital investment**

# INDUSTRY UPDATE

as at 31 December 2008

# Hedge Fund Industry - 2009 and beyond

The global hedge fund industry is undergoing an unprecedented structural change which only the strong will survive

- Liquidity**
- Negative performance and general deterioration of capital market conditions has ultimately led to many funds gating or freezing redemptions.
  - The liquidity of underlying investments remains a major challenge
  - We expect continued volatility throughout 2009 with more hedge funds to close but with the prospect of recovery towards the end of the year when fewer quality hedge funds remain.

- Performance**
- Expectations of “total” capital preservation, low volatility and limited draw downs with low correlation to traditional asset classes have generally not been met.
  - Performance dispersion among managers has increased and talent is more clearly identifiable

- Transparency**
- The severe impacts of global conditions on asset valuations, and the fall-out from the Madoff fraud has increased the focus on “transparency” of hedge funds and FOHF’s in relation to the ultimate underlying assets held.

# OUTLOOK

as at 31 December 2008

# Strategically Positioned to Prosper

HFA's Board and management strongly believe that despite the current challenges and short term uncertainty around liquidity, there remains fundamental support for alternative asset management.

## Historic Performance

- The Lighthouse funds were ranked 35<sup>th</sup> in global hedge fund AUM ranking in 2008 by Institutional Investor Alpha Magazine. The dominant Lighthouse funds having returned 5 to 8% p.a. since inception and in the last 12 months losses of 13 to 19% (compared to losses of 40% MSCI index).

## Strong Reputation

- Lighthouse (lead by Sean McGould) is recognised as a leading fund of hedge fund manager and selector of fund managers. This reputation has been further enhanced by the Lighthouse team's ability to avoid major fund "blow ups" and fraud including Bernad L. Madoff Investment Securities LLC.

## Managed Account Platform

- Managed accounts are seen as a key structural change required in the industry to address the liquidity, transparency and fraud issues that have become evident in the last 12 months. Lighthouse began building its Managed Account platform in 2005

## Less Competition

- The hedge fund industry (AUM/Competitors) has declined approx 50% from its peak and LHP believes this lack of competition is leading to excellent investment opportunities which should produce high risk adjusted returns for the next 3-5 years .



# Managed Accounts - The way forward

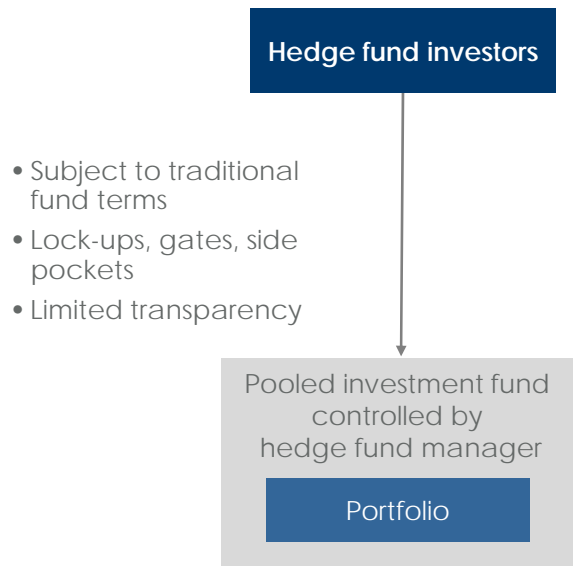
The transparency of underlying investments provided by a managed account platform is regarded as a critical advantage in the future success of fund of hedge fund managers.

HFA/Lighthouse has made significant progress towards implementing its Managed Accounts infrastructure

- Transparency** • A key strategy of HFA/Lighthouse is to protect, diversify and grow its asset base, while providing greater transparency and certainty around clients' investments.
- Direct Ownership** • A managed account platform allows direct ownership of the underlying assets by the Lighthouse fund, rather than having to hold them via other pooled fund vehicles.
  - This means that the Lighthouse fund's liquidity is not impacted by the decision of an external manager who moves to gate or suspend their fund. Lighthouse maintains control of how and when any particular asset is liquidated.
  - This means Lighthouse knows real time exactly what assets are held and thus are not exposed to any misleading asset statements by underlying hedge funds (eg: Maddoff)
- Significant Progress** • The development of a comprehensive managed account infrastructure, which combines the support of technology, operations and legal resources, has allowed HFA/Lighthouse to invest in approximately 80 managed account relationships. Practical completing of the managed account program is expected within 12 – 18 months.

# Commingled fund investment vs. managed account

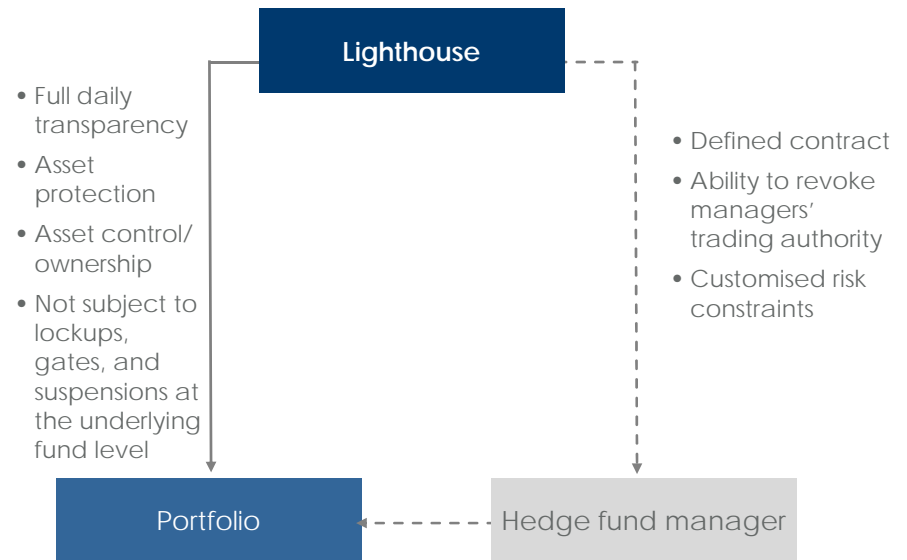
## Typical hedge fund investment



### Key distinctions

- Hedge fund manager manages investments and operations and selects counterparties
- Asset verification/valuation subject to a manager's auditor and administrator
- Hedge fund owns underlying portfolio investments
- Limited transparency offered to investors on portfolio investments

## Managed Account investment



### Key distinctions

- Hedge fund managers focus on what they do best, manage investments
- HFA/Lighthouse controls structure, owns underlying portfolio investments and works with underlying manager to select counterparties
- Asset verification/valuation subject to Lighthouses' auditor and administrator
- Lighthouse has full transparency on portfolio investments

# Managed Accounts - Advantages

Benefit	Traditional Hedge Fund Investment	Managed Account
Position level transparency	Limited	Full
Frequency of data analysis	Monthly	Daily
Control over Lock-ups, gates, suspensions, holdbacks at underlying fund	✗	✓
Ownership of assets by HFA/LHP fund of hedge fund	✗	✓
Power to revoke a manager's trading authority	✗	✓
Segregation of assets	✗	✓
Ability to invest in a specific team of a multi-strategy manager	✗	✓
Contractual investment covenants	✗	✓
Intra-month re-allocation	✗	✓
HFA/LHP approval of trading counterparties and service providers (e.g. prime brokerage and cash accounts)	✗	✓

# Outlook

HFA expects the challenges of the current market to continue into the foreseeable future. HFA is well positioned to maximise opportunities when sentiment changes.

## AUM & FUM

- Despite solid core product investment returns (relative to equity markets) HFA expects new investment inflows to remain subdued while investors review their portfolios and await greater clarity on the global economic outlook.
- HFA expects a period of net redemptions from its funds over the short to medium term as investors satisfy a need for cash to service their own commitments.
- Retention and growth in FUM remains a key focus for the group and through the rollout of its proprietary Managed Account platform HFA will be well positioned to benefit from a rationalisation of the fund of hedge fund industry.

## Investment Performance

- Capital preservation remains the highest priority for investment performance.
- Significant reduction in HFAAM product leverage (AUM) will materialise in the 2H with the quantum dependent on individual product performance

## Debt

- The Company has negotiated a new extended corporate loan facility which expires in November 2011. This longer term funding, will adequately support the Company through the current market and leave it well positioned to benefit from an expected rationalisation of the fund of hedge fund industry.

## Financial

- Given the considerable uncertainty still surrounding the global economy and financial markets HFA does not believe it is possible or appropriate to provide definitive guidance on future earnings.



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