

ASX ANNOUNCEMENT

13 December 2016

By ASX Online

ASX Market Announcements Office
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Exchange Centre
20 Bridge Street
Sydney NSW 2000

Target's statement in response to off-market takeover bid

In accordance with item 14 of the table in section 633(1) of the *Corporations Act 2001* (Cth), on behalf of Aurora Funds Management Limited as responsible entity of the HHY Fund (**HHY**), a copy of HHY's target's statement in response to the off-market takeover bid by Australian Global Income Trust (**AIB**) for all of the units in HHY is attached.



Jim Hallam

Independent Chairman

Aurora Funds Management Limited as responsible entity of the HHY Fund

This is an important document and requires your immediate attention. If you are in doubt as to how to deal with it, you should consult your legal, financial or other professional adviser.

The Independent Chairman recommends that,
in the absence of a superior proposal, you

ACCEPT

the offer by AIB for all your HHY Units

The independent expert's opinion is that the offer is

NEITHER FAIR NOR REASONABLE

Target's statement

by Aurora Funds Management Limited ABN 69 092 626 885
as responsible entity of the HHY Fund ARSN 112 579 129



NORTON
GLEDHILL

Lawyers to HHY

Important notices

This target's statement is made by Aurora Funds Management Limited as responsible entity of the HHY Fund under part 6.5 of the Corporations Act. It is given in response to AIB's offer under its Bidder's Statement. This target's statement is dated, and a copy was lodged with ASIC on, 13 December 2016. ASIC takes no responsibility for the contents of this target's statement.

The forward looking statements contained in this target's statement have been based on expectations at the date of this target's statement about future events. They are, therefore, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations. These factors include, among other things, the risks identified in section 5 and other investment considerations, as well as other matters not yet known to HHY or not currently considered material by HHY.

HHY does not give any assurance that the implied values, anticipated results, performance or achievements expressed or implied in forward looking statements contained in this target's statement will be achieved. None of the Responsible Entity, its directors and officers and other people involved in the preparation of this target's statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law.

The Responsible Entity has assumed for the purpose of preparing this target's statement that the information in the Bidder's Statement and other information provided to HHY by AIB is correct. None of the Responsible Entity, its directors and officers and other people involved in the preparation of this target's statement takes any responsibility for anything in the Bidder's Statement, or anything prepared or distributed by AIB, except to the extent such responsibility cannot be excluded by law.

In preparing this target's statement, the Responsible Entity has not taken into account your investment objectives, financial situation or particular needs. Accordingly, before deciding whether to accept AIB's offer, you should assess whether an investment in AIB would be appropriate in light of your own financial circumstances.

Defined terms

A number of terms used in this target's statement are defined in section 7 (glossary).

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Important dates

AIB offer opens	28 November 2016
Target's statement lodged with ASIC and ASX, and despatched to HHY unit holders	13 December 2016
AIB offer closes (unless extended or withdrawn)	30 January 2017 at 7:00 pm (Melbourne time)

Further information

If you have any questions in relation to the offer or accepting it, please contact HHY's unit registrar, Registry Direct, by telephone on 1300 55 66 35 (for callers in Australia) or +61 3 9909 9909 (for callers outside Australia) from 8:30 am to 5:00 pm (Melbourne time) on weekdays, or by facsimile (+61 3 9111 5652) or email (registry@registrydirect.com.au).

Letter from Independent Chairman

13 December 2016

Dear HHY unitholder

ACCEPT AIB'S OFFER

AIB has made a conditional off-market takeover bid for all of your HHY Units. The consideration for each HHY Unit is based on the net asset value of an HHY Unit or \$0.125, **whichever is higher**. This is to be satisfied by AIB issuing to you AIB Units of the same value (based on their net asset value).

This target's statement sets out HHY's formal response to AIB's offer, including my recommendation about the offer and the reasons for my recommendation.

The target's statement also sets out a report from an independent expert, PKF Corporate Finance (NSW) Pty Limited, that was commissioned by me on behalf of HHY to evaluate AIB's offer. The independent expert has concluded that the offer is **neither fair nor reasonable** to HHY unit holders. A copy of the independent expert report is set out in the schedule to this target's statement, and you are encouraged to read it in its entirety, particularly the reasons for the independent expert's opinion set out in section 8 of the report, before making a decision whether or not to accept the offer.

Having carefully considered the terms of AIB's offer, the independent expert report and the reasons for the independent expert's opinion, I recommend that you **ACCEPT** the offer (in the absence of a superior proposal) for the following key reasons:

- (a) You will realise the full value (in kind) of your HHY Units which may not be the case if you sold your HHY Units on ASX (given the recent historical trading prices of HHY Units below net asset value).
- (b) The calculation of the net asset value of your HHY Units is subject to a minimum which means that, if the net asset value of an HHY Unit is less than \$0.125, it will be taken to be \$0.125.
- (c) AIB offers an off-market redemption facility which enables AIB unit holders, subject to the terms of the facility, to redeem their AIB Units based on net asset value of the fund. HHY does not offer an equivalent redemption process.

See section 2.2 of this target's statement for further details of the reasons for my recommendation.

AIB's offer is open until 7:00 pm (Melbourne time) on 30 January 2017 (unless extended or withdrawn). The instructions about how you may accept the offer are set out in section 3.6 of this target's statement and on page 12 of the Bidder's Statement.

You will be advised if there are any material developments in relation to AIB's offer during the offer period.

I encourage you to read this target's statement carefully, and to seek professional advice if you are unsure what action you should take in relation to AIB's offer.

Yours sincerely



Jim Hallam
Independent Chairman

1. Key questions and answers

1.1 What do I need to do?

- (a) Read this target's statement (including the independent expert report) as well as the Bidder's Statement.
- (b) If you are unsure whether to accept AIB's offer, consult your legal, financial or other professional adviser.
- (c) If you wish to accept the offer, you need to do so before the offer closes. The offer is scheduled to close at 7:00 pm (Melbourne time) on 30 January 2017 (but may be extended by AIB). See page 12 of the Bidder's Statement for instructions about how to accept the offer.
- (d) If you wish to reject the offer, you do not need to do anything.

1.2 What is AIB's offer?

AIB is offering to acquire all of your HHY Units in exchange for AIB Units, such that the net asset value of the AIB Units you will be issued will be equal to the net asset value of the HHY Units which AIB will acquire from you. If the calculation of net asset values results in a fractional entitlement to an AIB Unit, AIB may round that entitlement to the nearest whole unit as it determines.

The net asset value of HHY Units and AIB Units will be calculated as at the close of business on the 20th of the month before the closing date of the offer. Accordingly, if the offer closes as scheduled on 30 January 2017, the net asset values will be calculated as at 20 January 2017.

See sections 3.1 to 3.8 of this target's statement for further details.

1.3 How is net asset value calculated?

The net asset value of an HHY Unit or AIB Unit at a particular time will be the net asset value of the relevant fund determined in accordance with its constitution, divided by the total number of units in the fund on issue, at that time. However, because it is subject to a minimum value, the net asset value of an HHY Unit will be at least \$0.125.

See section 3.1 of this target's statement for further details.

1.4 Has AIB's offer been independently assessed?

As Aurora is the responsible entity of both HHY and AIB, the directors of Aurora have sought to manage conflicts of interest and ensure the interests of unit holders of both funds are served by putting in place appropriate divisions within the responsible entity.

To that end, the directors of Aurora have delegated their powers in relation to HHY's response to AIB's takeover bid, including the preparation of this target's statement, to the Independent Chairman, Jim Hallam (with the other directors, John Patton and Betty Poon, being delegated the powers of the Aurora directors in relation to AIB's takeover bid).

In addition, separate legal advisers have been appointed for HHY and AIB, and HHY engaged PKF Corporate Finance (NSW) Pty Limited to provide an independent expert report on AIB's offer which is set out in the schedule to this target's statement.

See section 2.4 of this target's statement for further details.

1.5 What is the Independent Chairman's recommendation in relation to AIB's offer?

The Independent Chairman recommends that you accept the offer (in the absence of a superior proposal) for a number of reasons, including the following:

- (a) The consideration AIB will give you for your HHY Units reflects at least the full net asset value of your HHY Units. The **minimum** consideration is AIB Units with a net asset value equal to \$0.125 multiplied by the number of your HHY Units.
- (b) Unit holders in AIB have access to an off-market process for redeeming their units at a price based on net asset value.
- (c) The offer gives HHY unit holders an opportunity to become investors in an enlarged listed managed investment scheme with a greater potential level of diversification given AIB's portfolio of listed securities (assuming AIB acquires all of the HHY Units on issue).
- (d) The offer is expected to provide synergies (assuming AIB acquires all of the HHY Units on issue), which will reduce the costs of operating AIB's business (such as costs of third party administrative service providers, and audit and tax-related costs).

See section 2.2 of this target's statement for further details.

1.6 Is AIB's offer subject to conditions?

The offer is made subject to the terms and conditions set out in the Bidder's Statement. Those conditions include:

- (a) there being no change to the responsible entity of HHY (or AIB) before the end of the offer period;
- (b) no distributions being made by HHY to its unit holders prior to the end of the offer period; and
- (c) there being no material changes in the conduct of HHY's business; and
- (d) the net asset value of HHY not falling below \$0.124 per HHY Unit before the end of the offer period.

If the conditions to the offer are not satisfied by the end of the offer period (and not waived by AIB in its sole discretion), the offer will lapse, the transfer of your HHY Units will not be registered and your HHY Units will be returned by you.

See section 3.5 of this target's statement for further details.

1.7 Will all HHY unit holders who accept AIB's offer receive AIB Units and when will those AIB Units be issued?

If your address in the HHY unit register is in Australia or New Zealand and you accept the offer, you will be issued AIB Units on completion of the offer provided those AIB Units are worth at least \$500. The AIB Units are to be issued on 20 February 2017 (assuming the conditions are not waived by AIB before the offer closes and the offer closes on 30 January 2017, as scheduled).

However, if your address in the HHY unit register is outside Australia and New Zealand, or were you to accept the offer the AIB Units to which you would otherwise be entitled would be worth less than \$500, and you accept the offer, you will not be entitled to be issued AIB Units (unless AIB agrees otherwise), and instead will receive cash consideration for your HHY Units.

See sections 3.1 and 3.2 of this target's statement for further details.

1.8 Can I subsequently withdraw my acceptance of AIB's offer?

You may not be able to withdraw your acceptance of the offer, as the entitlement to withdraw is limited.

See section 3.7 of this target's statement for further details.

1.9 Are there tax consequences if I accept AIB's offer?

There may be tax consequences for you if you accept the offer, depending on your personal tax and financial circumstances. The Bid der's Statement contains a report about the Australian income tax implications of accepting the offer. You should carefully consider the tax consequences and, if necessary, consult your tax adviser before deciding whether to accept the offer.

See section 3.9 of this target's statement for further details.

1.10 Will I be forced to sell my HHY Units?

If you do not accept AIB's offer, AIB may still be entitled to acquire your HHY Units compulsorily in accordance with the Corporations Act. You will still receive AIB Units (or cash consideration, if ineligible to receive AIB Units) if that occurs, but there will be a delay in receiving the consideration.

See section 3.10 of this target's statement for further details.

1.11 How do I accept AIB's offer?

The method for accepting AIB's offer depends on whether your holding of HHY Units is a CHESS holding or an issuer sponsored holding. If you are not sure how your HHY Units are held, contact HHY's unit registrar, Registry Direct, by telephone on 1300 55 66 35 (for callers in Australia) or +61 3 9909 9909 (for callers outside Australia) from 8:30 am to 5:00 pm (Melbourne time) on weekdays, or by facsimile (+61 3 9111 5652) or email (registry@registrydirect.com.au).

See section 3.6 of this target's statement for further details.

1.12 When do I have to make a decision about AIB's offer?

If you wish to accept the offer, you must do so before the offer closes. The offer is scheduled to close at 7:00 pm (Melbourne time) on 30 January 2017 (but may be extended by AIB).

If you do not wish to accept the offer, you do not need to do anything.

1.13 Who can I contact for further information?

If you have any questions in relation to the offer or accepting it, please contact HHY's unit registrar, Registry Direct, by telephone on 1300 55 66 35 (for callers in Australia) or +61 3 9909 9909 (for callers outside Australia) from 8:30 am to 5:00 pm (Melbourne time) on weekdays, or by facsimile (+61 3 9111 5652) or email (registry@registrydirect.com.au).

2. Recommendation by Independent Chairman

2.1 Recommendation

The Independent Chairman recommends that you accept AIB's offer for your HHY Units (in the absence of a superior proposal).

2.2 Reasons for recommendation

The Independent Chairman's recommendation to accept AIB's offer is based on the following key factors:

*Benefits **not** dependent on level of acceptances*

- (a) **Full net asset value:** the ratio AIB will use to calculate the number of AIB Units you receive reflects the full net asset value of your HHY Units. This means you will realise in kind the full net asset value of your HHY Units which may not be the case if you sold your HHY Units on ASX (given the recent historical trading prices of HHY Units below net asset value).
- (b) **Minimum consideration:** the calculation of the net asset value of an HHY Unit is subject to a minimum such that the net asset value will be no less than \$0.125. This means that if the net asset value of an HHY Unit is less than \$0.125, it will be taken to be \$0.125 (although if the net asset value falls below \$0.124 before the end of the offer period, that will trigger a defeating condition of AIB's offer which, if not waived by AIB, will entitle AIB to rescind the contract resulting from your acceptance of the offer, in which case you will retain your HHY Units and not be issued any AIB Units).
- (c) **Redemption entitlement:** AIB offers an off-market redemption process for AIB unit holders to redeem their investment based on net asset value of the fund, in accordance with the terms of that process – see section 3.8 of this target's statement for further details. HHY does not offer an equivalent redemption process. In consequence, the offer, coupled with AIB's redemption facility, allows accepting unit holders to realise in cash close to the full net asset value of their HHY Units.
- (d) **No other proposals announced:** as at the date of this target's statement, no other proposals to acquire or merge with HHY have been announced.
- (e) **Alternatives:** AIB's offer is considered superior to other courses of action available to HHY. For example, if AIB's offer is not accepted and HHY were to continue as is, the fund would continue to be managed under the current investment strategy, and the benefits of enhanced scale and synergies and cost reductions outlined above would not be achieved. If HHY unit holders instead resolved to wind up HHY to realise their investment, winding up may not maximise the proceeds available to HHY unit holders, and may be a time consuming process. Further, unexpected transaction costs may reduce the proceeds paid to HHY unit holders.
- (f) **Simple offer:** no stamp duty is payable by HHY unit holders who accept the offer and there are no costs or charges payable to AIB for the issue of AIB Units.

Benefits dependent on level of acceptances

- (g) **Enhanced scale:** you will become a unit holder in an enlarged managed investment scheme listed on ASX. AIB has estimated the market capitalisation of AIB immediately following completion of the offer (assuming AIB acquires all of the HHY Units on issue) at in excess of \$15.8 million (on a pro forma basis at the close of trading on 17 November 2016).
- (h) **Synergies and cost reductions:** the increased market capitalisation of AIB would enhance AIB's ability to increase returns on AIB's portfolio of investments, and to do so on a measured and sustainable basis. AIB would also be able to reduce the cost of

certain fees and expenses on an ongoing basis as those costs will be spread across a larger base of unit holders.

- (i) **Maintain your investment:** by becoming a unit holder in AIB, you will stay invested in the portfolio of HHY (although in a diluted form), and be exposed to a more substantial (and potentially more diversified) investment portfolio (depending on the extent of the interest in HHY that AIB acquires).
- (j) **Capital gains tax rollover relief:** if AIB acquires 80% or more of the HHY Units under the offer, HHY unit holders who would otherwise have made a capital gain may elect to apply for scrip-for-scrip rollover relief (and, if they do, among other things, the capital gain that would otherwise have been made in relation to the disposal of the HHY Units is disregarded).

The extent of some of the benefits outlined above will depend on the level of acceptances received under the offer, which is difficult to predict. In recommending acceptance of the offer, the Independent Chairman has assumed sufficient HHY unit holders will accept the offer to substantially realise those benefits. However, even if that is not the case, the Independent Chairman believes that the other benefits of accepting the offer that are not contingent on the level of acceptances (in particular the benefits outlined in paragraphs (a) to (c) above), on balance outweigh not accepting the offer and remaining a unit holder of HHY, particularly in view of the uncertainties were AIB to end up with partial ownership of HHY – see section 4.6 for further details.

2.3 Independent expert report

HHY has engaged an independent expert, PKF Corporate Finance (NSW) Pty Limited, to provide a report about whether, in the expert's opinion, the takeover offers under AIB's offer are fair and reasonable.

The independent expert's opinion is that the takeover offers are neither fair nor reasonable. However, the independent expert also states (in section 8.8 of the report) that for those HHY unit holders looking for certainty that:

- they will remain a unit holder in a listed vehicle;
- are satisfied with AIB's investment strategy;
- are satisfied with Aurora as investment manager; and
- are prepared to accept any adverse tax consequences arising from accepting the offer;

they may choose to accept the offer.

In assessing the fairness of the takeover offers, the independent expert is required to compare :

- (a) the fair market value of an HHY Unit on a controlling interest basis, before the completion of AIB's offer (i.e. the price that a bidder would have to pay to acquire full control of HHY); with
- (b) the fair market value of the consideration being offered to HHY unit holders, being AIB Units in the merged entity on a minority interest basis (assuming AIB's offer is accepted by 100% of HHY unit holders).

Because the offers are scrip for scrip at net asset value and, therefore, there is no premium for control, the independent expert is unable to conclude that the offers are fair – see page 4 of the report for further details.

The independent expert's opinion about the reasonableness of the takeover offers is based on a number of factors the outcome of which the expert acknowledges is unpredictable. In particular, the independent expert notes that AIB's offer has uncertain tax consequences

because, if AIB does not acquire at least 80% of the HHY Units on issue, scrip-for-scrip rollover relief will not be available to HHY unit holders who accept AIB's offer and there may be undesirable taxation outcomes if an HHY unit holder realises a capital gain on disposing of its HHY Units: see section 8.7.2 of the independent expert report for further details. However, the taxation consequences of an HHY unit holder accepting AIB's offer will depend on that unit holder's particular tax and financial circumstances. For example, it may be the case that an HHY unit holder realises a capital loss (not a capital gain) if it accepts HHY Units, which may have a beneficial tax outcome for that unit holder.

The independent expert report is set out in the schedule to this target's statement. You should read the report in its entirety.

2.4 Independence and management of inherent conflict

As Aurora is the responsible entity of both HHY and AIB, the directors of Aurora have sought to manage conflicts of interest and ensure the interests of unit holders of both funds are served by putting in place appropriate divisions within the responsible entity.

To that end, Jim Hallam, the Independent Chairman, has been delegated responsibility for HHY's response to AIB's takeover bid by the directors of Aurora, including the preparation of this target's statement. Jim is a non-executive director of Aurora, as well as being chairman of the board of directors.

The other directors, John Patton and Betty Poon, have been delegated the powers of the Aurora directors as responsible entity of AIB in relation to the bid.

In consequence, the Independent Chairman's role in relation to AIB's takeover bid has been limited to reviewing the Bidder's Statement for factual accuracy and, as a director of Aurora, authorising its lodgement with ASIC and ASX and despatch to HHY unit holders as required by the Corporations Act.

In relation to HHY's response to AIB's takeover bid, the Independent Chairman has on behalf of HHY:

- (a) engaged separate legal advisers, Norton Gledhill, to provide legal advice in relation to HHY's response to the bid and the preparation of this target's statement;
- (b) engaged the independent expert, PKF Corporate Finance (NSW) Pty Limited, to evaluate AIB's offer and to prepare the independent expert report set out in the schedule to this target's statement;
- (c) provided instructions to, and authorised others within Aurora to provide instructions to, Norton Gledhill and PKF Corporate Finance (NSW) Pty Limited as required for them to perform their respective roles; and
- (d) supervised the preparation of this target's statement with the assistance of Norton Gledhill and executives of Aurora that have knowledge of the investments and other activities of HHY.

The role of John Patton and Betty Poon in connection with the preparation of this target's statement has been limited to:

- (a) providing factual information for the purpose of ensuring it contains all the information known to the directors that HHY unit holders would reasonably require to make an informed assessment whether to accept AIB's offer;
 - (b) confirming the factual accuracy of statements in this target's statement, particularly in relation to statements attributed to them or to the directors of Aurora generally; and
 - (c) together with the Independent Chairman, approving this target's statement as required by the Corporations Act.
-

3. Summary of AIB's offer, tax considerations and compulsory acquisition

3.1 The offer

AIB is offering to acquire all of your HHY Units in exchange for AIB Units, such that the net asset value of the AIB Units you will be issued will be equal to the net asset value of the HHY Units which AIB will acquire from you.

The number of AIB Units to be issued to you if you accept the offer will be calculated in accordance with the following formula (and AIB may round any resulting fractional entitlement to an AIB Unit to the nearest whole unit as it determines):

$$\frac{\text{Net asset value of an HHY Unit}}{\text{Net asset value of an AIB Unit}} \times \text{the number of HHY Units for which you have accepted AIB's offer}$$

The net asset value of an HHY Unit or AIB Unit will be calculated as the net asset value of the relevant fund divided by the total number of units in the fund on issue, subject to the net asset value of an HHY Unit being a minimum of at least \$0.125. See section 12.5(a) of the Bidder's Statement for further details.

The net asset value of each of HHY and AIB will be calculated in accordance with their respective constitutions. In summary, for both HHY and AIB, net asset value is the value of the assets of the fund less the value of the liabilities of the fund. The assets of a fund include property such as cash, investments or income, and the liabilities of a fund include present liabilities as well as provisions for liabilities as decided by the responsible entity of the fund.

The net asset value of HHY and AIB, and the number of units on issue in each fund, will be calculated as at the close of business on the last occurring date prior to the closing date of the offer which falls on the 20th day of the month. Accordingly, if the offer closes as scheduled on 30 January 2017, the net asset values and numbers of issued units will be calculated as at 20 January 2017. This calculation will be based on the fund's accounts and other records maintained by or on behalf of the responsible entity, and will not be audited for this purpose.

The following table sets out some examples of the consideration which you will receive if you accept AIB's offer for all of your HHY Units, assuming that:

- (a) the net asset value of an HHY Unit is \$0.1263 (being the net asset value of an HHY Unit as at 31 October 2016 announced by HHY to ASX under rule 4.12 of the ASX Listing Rules); and
- (b) AIB Unit is \$0.781 (being the net asset value of an AIB Unit as at 31 October 2016 announced by AIB to ASX under rule 4.12).

If you accept AIB's offer for this number of HHY Units ...	you will be issued this many AIB Units in exchange for your HHY Units ...
6,000	970
10,000	1,617
50,000	8,086
125,000	20,214
200,000	32,343
1,000,000	161,716

As the consideration which AIB is to provide for your HHY Units is to be calculated as at a future date, the information in the above table may not reflect the number of AIB Units you actually receive if you accept the offer.

The offer is made subject to the terms and conditions set out in the Bidder's Statement.

See section 12 of the Bidder's Statement for further details.

3.2 Some HHY unit holders ineligible to receive AIB Units

Certain unit holders who accept AIB's offer will not receive AIB Units. In summary, those unit holders include a person with an address in the unit register for HHY which is in a jurisdiction outside Australia and New Zealand (unless otherwise determined by AIB in its discretion), and a person whose parcel of AIB Units would have a value less than \$500 (based on the AIB Units which would be issued to the person if the person accepted AIB's offer).

The AIB Units those unit holders would otherwise have been entitled to receive will instead be issued to a nominee approved by ASIC. The nominee will be required to offer those AIB Units for sale as soon as practicable at a price and on other terms and conditions determined by the nominee, and to remit the proceeds of sale to AIB. Once the nominee's costs and other sale expenses have been deducted, AIB will pay the net proceeds attributable to those unit holders to them in cash.

See section 12.5(c) of the Bidder's Statement for further details.

3.3 Offer period

AIB's offer opens for acceptance on 28 November 2016 and closes at 7:00 pm (Melbourne time) on 30 January 2017 (assuming the offer is not withdrawn and the closing date is not extended).

See section 12.2 of the Bidder's Statement for further details.

3.4 Issue of AIB Units

If AIB's offer is implemented, AIB Units will be issued to persons who have validly accepted the offer on the earlier of:

- (a) 1 month after all of the conditions of the offer have been freed or fulfilled (whichever is later); and
- (b) 21 days after the end of the offer period (i.e. 20 February 2017, assuming AIB's offer closes as scheduled on 30 January 2017).

See section 12.5 of the Bidder's Statement for further details.

3.5 Conditions

AIB's offer is subject to a number of conditions, including the following:

- (a) There is no change in the responsible entity of AIB and HHY between 29 September 2016 and the close of the offer.
 - (b) No material adverse change to HHY's assets, liabilities, financial or trading position, profitability or prospects.
 - (c) No material change to HHY's business.
 - (d) No distributions by HHY.
 - (e) All regulatory approvals in relation to the offer are obtained.
-

- (f) No adverse regulatory action.
- (g) No prescribed occurrences as set out in the Corporations Act occur (e.g. HHY disposes of the whole or a substantial part of its property, enters into a buy-back agreement or resolves to be wound up).
- (h) No material litigation.
- (i) The net asset value of an HHY Unit does not fall below \$0.124 between 29 September 2016 and the close of the offer.

If any of those conditions are triggered, AIB may decide to withdraw its offer. Each condition of the offer may also be waived at AIB's sole discretion.

Accordingly, if you accept AIB's offer, there is no guarantee it will acquire your HHY Units and so you may not be issued any AIB Units. If that occurs, you will remain a unit holder of HHY.

See sections 12.7 and 12.8 of the Bidder's Statement for further details.

3.6 How to accept the offer

For CHES holdings

You may accept the offer by:

- (a) instructing your controlling participant (usually your broker) to initiate acceptance of the offer on your behalf in sufficient time for the offer to be accepted before the end of the offer period; or
- (b) completing and signing the acceptance form (which you should have received with the Bidder's Statement) in accordance with the instructions on that form and within the Bidder's Statement to instruct the controlling participant (on your behalf) to accept the offer.

For issuer sponsored holdings

Complete and sign the acceptance form (which you should have received with the Bidder's Statement) in accordance with the instructions on that form and within the Bidder's Statement.

Where to send your acceptance form

By hand:	By facsimile:	By mail:
Level 6	+61 3 9111 5652	Aurora Funds Management Limited
2 Russell Street		C/- Registry Direct
Melbourne VIC 3000		PO Box 18366
		Collins Street East VIC 8003

See sections 12.3 and 12.6 of the Bidder's Statement for further details.

3.7 Limited ability to withdraw acceptance

Once you accept the offer, you cannot withdraw your acceptance unless a withdrawal right arises under the Corporations Act. Such a right will arise if, after you have accepted the offer and the offer remains conditional, AIB varies its offer in a way which postpones, for more than 1 month, the time when AIB has to meet its obligations under the offer. If this occurs, AIB is required to send you a notice at the relevant time that explains your right to withdraw your acceptance of the offer.

See section 12.3 of the Bidder's Statement for further details.

3.8 Right of redemption and other rights of AIB unit holders

Right of redemption

Under the constitution of AIB, an AIB unit holder may apply to exit the fund by having the holder's AIB Units redeemed under AIB's off-market redemption facility. Generally, the exit price payable on redemption of an AIB Unit is based on the net asset value of an AIB Unit less the responsible entity's estimate of the costs of selling assets to pay the exit price (calculated at the next time the fund is valued by the responsible entity after receiving the redemption request). The exit price for an AIB Unit may be rounded up or down up to 1% or \$0.10 (as the responsible entity chooses), and may be satisfied by the payment of cash or transfer of assets (or both). If the responsible entity transfers assets, it may require some or all of the associated costs to be paid by the AIB unit holder.

The responsible entity of AIB is not obliged to satisfy a redemption request, may satisfy a request only in respect of some of the AIB Units held by the AIB unit holder, and may set a minimum withdrawal amount. Further, the responsible entity may delay a redemption of units for up to 56 days (or such longer period as it considers reasonable) if, for example :

- (a) there is a circumstance outside the responsible entity's control which it considers impacts on its ability to calculate price properly or fairly; or
- (b) it has determined to honour redemption requests and the aggregate exit price would represent more than 5% of the net asset value of the fund, in which case the responsible entity may redeem the AIB Units at such future times during that period as the responsible entity determines.

A redemption payment must be made as soon as is practicable, and in any event within 60 days of receipt of the redemption request after the redemption money or assets become available.

According to the product disclosure statement for AIB dated 10 July 2014 (as amended by supplementary product disclosure statement dated 1 July 2015) :

- (a) redemption requests must be for a minimum of 2,000 AIB Units;
- (b) redemption requests are processed every month;
- (c) if AIB receives a redemption request at its registry by the close of business on the 20th day of the month, the redemption request will be processed using the exit price calculated, based on market valuations and less transaction costs of 0.2% of the net asset value of the AIB Units redeemed, at the close of business on the last day of the same month; and
- (d) the exit price is normally determined by the 15th day of the following month, with payment made as soon as practicable afterwards.

These arrangements may be varied by AIB at any time.

If an HHY unit holder accepts AIB's offer, there will be risks in relying on this redemption facility to realise your investment in AIB. There is no guarantee a redemption request will be accepted or, if accepted, payment made within a short period of time. In particular, redemptions may be deferred or delayed if large numbers of redemption requests are lodged at around the same time (for example, if a large number of HHY unit holders accept AIB's offer and, shortly following their acquisition of AIB Units, lodge redemption requests). However, as noted by the independent expert based on the financial position of AIB and HHY as at 31 October 2016:

- (a) AIB had cash holdings of approximately \$2.7 million (representing approximately 66% of the net asset value of AIB); and

- (b) if AIB acquires 100% of the HHY Units on issue, immediately following completion of the offer AIB will have cash holdings of approximately \$5.1 million (representing approximately 32% of the net asset value of AIB).

See sections 5.4.3 and 8.7.1 of the independent expert report for further details.

Whilst HHY has implemented an on-market buy-back program in accordance with the ASX Listing Rules (see section 4.5 for further details), there is no equivalent regime for redeeming HHY Units (because the redemption regime in HHY's constitution only applies if HHY Units are not quoted on ASX).

Other rights of AIB unit holders

Under the constitution of AIB, an AIB unit holder has broadly similar rights to the rights of a unit holder of HHY under the constitution of HHY in relation to:

- (a) distribution entitlements (e.g. in proportion to unit holding) ;
- (b) being given notice of, and attending and voting at, meetings of unit holders; and
- (c) limiting the unit holder's liability to the responsible entity to any amount unpaid on the units held by the holder.

See section 7.5 of the Bidder's Statement for further details.

3.9 Tax considerations

The taxation consequences for you if you accept AIB's offer depend on a number of factors, including your personal tax and financial circumstances.

See section 10 of the Bidder's Statement for a report from Deloitte Tax Services Pty Ltd regarding the Australian income tax implications of the offer. You should read the report carefully.

However, you should not rely on that report as advice in relation to your own affairs. Taxation laws are complex and there could be implications in addition to those generally described in the report. You should consult your own tax adviser for advice applicable to your individual needs and circumstances.

HHY does not accept any responsibility for the tax implications of disposing of your HHY Units or acquiring AIB Units under the offer.

3.10 Compulsory acquisition of HHY Units

In certain limited circumstances, the Corporations Act entitles a person to acquire securities compulsorily in an entity which the person does not already own.

For example, if AIB (and its associates) acquire a relevant interest in 90% or more of the HHY Units on issue and receive acceptances under the offer for at least 75% of the HHY Units on issue, AIB will be entitled under the Corporations Act to proceed to acquire the other HHY Units on issue compulsorily. AIB has stated it intends to carry out a compulsory acquisition of those HHY Units if entitled to do so (and then to procure the removal of HHY from ASX's official list).

Accordingly, AIB may become entitled to acquire your HHY Units even if you do not accept AIB's offer. If that occurs, consideration for your HHY Units will be provided to you later than would have been the case if you had accepted AIB's offer.

See section 9.2(a) of the Bidder's Statement for further details.

4. Background information about HHY

4.1 HHY's business

HHY is a registered managed investment scheme under the Corporations Act. It is listed on ASX and is subject to the ASX Listing Rules, including rules regarding continuous and periodic disclosure.

Aurora was appointed responsible entity of HHY on 30 June 2015. Following completion of a strategic review of HHY's investment strategy, Aurora enhanced HHY's investment strategy in August 2015 to include investments in listed and unlisted Australian and international equities, and options, convertible securities and other derivative securities. Some of these unlisted and unrated securities may not otherwise be readily accessible to persons investing in ASX-listed entities.

Keybridge Capital Limited was appointed investment manager of HHY on 30 June 2016.

As at 30 November 2016, the net asset value of HHY was approximately \$11.223 million and there were 90,974,037 HHY Units on issue, giving a net asset value of approximately \$0.1234 for each HHY Unit.

4.2 Trading of HHY Units

The last recorded sale price of HHY Units on ASX:

- (a) before AIB's offer was announced was \$0.125 on 27 September 2016;
- (b) before AIB lodged its Bidder's Statement with ASIC was \$0.125 on 17 November 2016; and
- (c) on 8 December 2016 (being shortly before the date of this target's statement) was \$0.120.

In the 4 months prior to 9 December 2016:

- (a) the highest recorded sale price of HHY Units on ASX was \$0.130 on 21 September 2016; and
- (b) the lowest recorded sale price of HHY Units on ASX was \$0.115 on 23 and 24 August 2016.

4.3 Distributions paid on HHY Units

The most recent distributions paid in respect of an HHY Unit were distributions of \$0.2580 on 29 August 2014 and \$0.0359 on 15 November 2013.

4.4 HHY's financial position

HHY's last published audited financial statements were for the 12 months ended 30 June 2016. Based on those financial statements:

- (a) the net asset value of an HHY Unit increased by 17.27% to \$0.129 at 30 June 2016, compared with \$0.110 as at 30 June 2015; and
- (b) following an operating loss after income tax of \$11.657 million for the 2015 financial year, HHY recorded an operating profit after income tax of \$1.668 million for the 2016 financial year, a turnaround of \$13.325 million.

So far as is known to the directors of HHY at the date of this target's statement, the financial position of HHY has not materially changed since 30 June 2016 to the date of this target's statement.

4.5 Recent developments

Meeting of unit holders

A meeting of unit holders of HHY was scheduled to be held on 29 September 2016. The meeting was requisitioned by entities associated with Wilson Asset Management (collectively **WAM**) to consider resolutions to replace the Responsible Entity and/or to wind up HHY. On the day of the meeting, AIB notified HHY and announced to ASX its intention to make an off-market takeover bid for HHY, which included a defeating condition that Aurora not be removed as responsible entity of either HHY or AIB. In consequence, the meeting was adjourned to provide time to HHY unit holders to consider the merits of the takeover bid properly. This meeting is due to be re-convened once HHY unit holders have had a reasonable opportunity to consider this target's statement (along with the other relevant statutory disclosures), thereby enabling them to make an informed decision at the resumption of the meeting.

Following the adjournment of that meeting, WAM convened a second meeting of members of HHY, which was opened on 6 December 2016 and, following adjournments, concluded on 9 December 2016. The purpose of the meeting was to consider resolutions to replace the Responsible Entity with Record Funds Management Limited (**Record**), but not to wind up HHY. Aurora wrote to unit holders on 23 November 2016 providing further information about the meeting and recommending unit holders vote against the resolutions. The resolutions to replace the Responsible Entity were not passed.

In addition, another entity associated with WAM, Wilson Asset Management (International) Pty Limited, convened a meeting of unit holders of AIB, which was held on 6 December 2016 to consider resolutions to replace Aurora as responsible entity of that fund with Record. Those resolutions were not passed.

Consistent with its ASX announcement, one of the defeating conditions of AIB's takeover bid for HHY (which it may waive) is that there is no change to the responsible entity of HHY before the end of the offer period: see section 3.5.

AIB may waive defeating conditions not less than 7 days before the end of the offer period. As at the date of this target's statement, AIB has not waived this defeating condition and has not made any public statement about whether or not it will do so, and at present the defeating condition has not been triggered in view of the failure of WAM at the abovementioned meetings.

Buy-back

On 10 August 2016, HHY announced to ASX an on-market buy-back of up to approximately 10% of the HHY Units then on issue for capital management purposes. As at 8 December 2016, HHY had bought back 5,376,319 HHY Units (representing approximately 5.65% of the HHY Units on issue when the buy-back was announced).

As noted in section 3.5 of this target's statement, AIB's offer is subject to a condition that no 'prescribed occurrence' (as defined in the Corporations Act) occurs, which includes HHY entering into a buy-back agreement. However, AIB has confirmed to HHY that it will not treat any agreement HHY enters into (or has entered into) in connection with the on-market buy-back currently underway as triggering that condition of AIB's offer (provided that purchases of HHY Units pursuant to the buy-back do not occur above the prevailing net asset value of those HHY Units).

4.6 Aurora's intentions for HHY

Aurora's current intentions if AIB:

- (a) obtains 90% or more of the HHY Units on issue;
 - (b) obtains control of HHY but less than 90% of the HHY Units on issue; or
-

(c) does not obtain control of HHY;

as a result of its takeover bid are set out in sections 9.2 to 9.4 of the Bidder's Statement.

Keybridge's ongoing role as investment manager of HHY

In the event that AIB acquires 100% of the HHY Units on issue, Aurora intends to enter into commercial discussions with Keybridge Capital Limited (**Keybridge**) with a view to terminating the HHY investment management agreement and paying out Keybridge for early termination.

In the event that AIB obtains control of HHY but less than 90% of the HHY Units on issue, Aurora intends to undertake a review (including of the Keybridge investment agreement) in order to determine how best to minimise the separate costs incurred in respect of each of HHY and AIB, and to enhance the efficiency of both funds.

In the event that AIB does not obtain control of HHY, Aurora intends to continue to support Keybridge as investment manager.

5. Risks

5.1 Risks of investing in AIB

There are risks associated with accepting AIB's offer. You should read section 4.4(j) of the Bidder's Statement for details of the key risks associated with AIB which AIB has identified before deciding whether to accept the offer. You should also read section 3.8 of this target's statement which identifies some of the risks of relying on the off-market redemption facility offered by AIB to realise your investment in AIB.

If you decide not to accept the offer and remain an HHY unit holder (and assuming your HHY Units are not compulsorily acquired), you should carefully consider Aurora's current intentions in relation to HHY as a result of AIB's takeover bid, as set out in sections 9.2 to 9.4 of the Bidder's Statement.

5.2 AIB's offer is conditional

AIB's offer is subject to a number of conditions, a number of which are outside HHY's control. While AIB may free the offer of conditions (e.g. if they are not able to be satisfied), there is no guarantee AIB will do so.

If you accept the offer while it is subject to a condition, you will give up the ability to deal with your HHY Units (e.g. to sell them on ASX), unless you first exercise any right of withdrawal of your acceptance.

5.3 Foregone increases in value of HHY Units and participation in future distributions

If you accept AIB's offer and your HHY Units are sold to AIB, you will forego any potential increase in HHY's unit price that may occur, and any distributions which HHY may make to its unit holders, in the future.

5.4 Minority unit holders

If you decide not to accept the offer and remain an HHY unit holder (and assuming your HHY Units are not compulsorily acquired), the outcome of AIB's offer may be that it controls HHY and you are a minority unit holder in HHY.

If this occurs, the liquidity of your HHY Units may be even lower than at present. Further, ASX may also de-list HHY, which would mean you would not be able to sell your HHY Units on market.

You should consider Aurora's current intentions depending on the extent to which AIB acquires HHY Units as a result of its takeover bid, which are set out in sections 9.2 to 9.4 of the Bidder's Statement.

6. Other information

6.1 Recommendations of the directors of Responsible Entity

At the date of this target's statement, the directors of the Responsible Entity are:

Jim Hallam (chairman)

John Patton (managing director)

Betty Poon (executive director, chief financial officer and company secretary)

As Aurora is the responsible entity of both HHY and AIB, the directors of Aurora have sought to manage conflicts of interest and ensure the interests of unit holders of both funds are served by putting in place appropriate divisions within the responsible entity.

To that end, the directors of Aurora have delegated their powers in relation to HHY's response to AIB's takeover bid, including the preparation of this target's statement, to Jim Hallam (with John Patton and Betty Poon being delegated the powers of the Aurora directors in relation to AIB's takeover bid).

Jim Hallam recommends that unit holders accept AIB's offer in respect of all of their HHY Units for the reasons set out in this target's statement.

Given they are the directors of the Responsible Entity delegated responsibility for preparing AIB's offer, John Patton and Betty Poon do not consider it appropriate for them to make a recommendation to unit holders about whether to accept or reject AIB's offer and do not do so.

6.2 Intentions of directors of Responsible Entity

As the directors of the Responsible Entity do not have a relevant interest in any HHY Units, they have not received an offer from AIB under the takeover bid.

6.3 Relevant interests of directors of Responsible Entity in securities of HHY

At the date of this target's statement, the directors of the Responsible Entity have the following relevant interests in HHY Units:

This director of the Responsible Entity ...	has a relevant interest in this number of HHY Units ...
Jim Hallam	Nil
John Patton	Nil
Betty Poon	Nil

6.4 Dealings of directors of Responsible Entity in securities of HHY

No director of the Responsible Entity has acquired or disposed of a relevant interest in HHY Units in the 4 month period ending on the day immediately before the date of this target's statement.

6.5 Relevant interests of directors of Responsible Entity in securities of AIB

At the date of this target's statement, no director of the Responsible Entity has a relevant interest in any securities issued by AIB.

6.6 Dealings of directors of Responsible Entity in securities of AIB

No director of the Responsible Entity has acquired or disposed of a relevant interest in any securities issued by AIB in the 4 month period ending on the day immediately before the date of this target's statement.

6.7 No agreement with any director of Responsible Entity conditional on outcome of AIB's offer

There is no agreement made between any director of the Responsible Entity and any other person in connection with or conditional on the outcome of AIB's offer.

6.8 Interests of directors of Responsible Entity in contracts with AIB

In addition to being directors of the Responsible Entity, John Patton and Betty Poon have an interest in less than 30% and 15% respectively of the unit trust which owns all of the shares on issue in Aurora.

Aurora is responsible entity of both AIB and HHY and the directors of Aurora receive, and are entitled to receive, fees and other remuneration for their services as directors (and executives in the case of John Patton and Betty Poon) that are paid by Aurora out of its own funds. This remuneration is not recovered by Aurora from the funds of AIB or HHY.

Other than as disclosed above, no director of the Responsible Entity has an interest in any contract entered into by AIB.

6.9 Cost and expenses incurred by Aurora in relation to the takeover bid

The total amount of cash required to be paid to satisfy all costs, fees and expenses associated with the takeover bid will be provided from AIB's and HHY's assets depending on whether those costs, expenses and fees were incurred from the perspective of AIB or HHY, respectively.

The total costs, fees and expenses incurred in connection with the takeover bid are estimated at approximately \$213,350 (excluding GST and disbursements). This includes legal, accounting, tax, independent expert, unit registrar, ASIC and other professional costs, fees and expenses incurred by AIB and HHY, as detailed in the table below:

Payer	Costs/expenses/fees	Amount
AIB	ASIC	\$2,350
AIB	Legal adviser	\$55,000
AIB	Tax adviser	\$31,000
AIB	Unit registrar, printing and mailing	\$5,000
HHY	Legal adviser	\$55,000
HHY	Independent expert	\$40,000
HHY	Unit registrar, printing and mailing	\$25,000

The above fees, costs, and expenses are estimates as at the date of this target's statement.

6.10 Consents

- (a) Norton Gledhill has consented to being named as lawyers to HHY in this target's statement in the form and context in which it is named, and has not withdrawn its consent before lodgment of this target's statement with ASIC.
- (b) PKF Corporate Finance (NSW) Pty Limited has consented to its independent expert report which is set out in the schedule to this target's statement being included in this target's statement in the form and context in which it is included, and has not withdrawn its consent before lodgment of this target's statement with ASIC.

6.11 Copies of documents

This target's statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX by AIB including the Bidder's Statement. Pursuant to section 638(5) of the Corporations Act (as modified by ASIC class order [CO 13/521] and ASIC Corporations (Consents to Statements) Instrument 2016/72), any HHY unit holder may obtain a copy of any of those documents from HHY during the offer period free of charge (and within 2 business days of making a request) by contacting HHY's unit registrar, Registry Direct, by telephone on 1300 55 66 35 (for callers in Australia) or +61 3 9909 9909 (for callers outside Australia) from 8:30 am to 5:00 pm (Melbourne time) on weekdays, or by facsimile (+61 3 9111 5652) or email (registry@registrydirect.com.au).

6.12 Extent of information included

This target's statement is required to include all the information that holders of HHY Units and their professional advisers would reasonably require to make an informed assessment of whether to accept AIB's offer, but only:

- (a) to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this target's statement; and
- (b) if the information is known to any of the directors of the Responsible Entity.

The directors of the Responsible Entity are of the opinion that the information unit holders and their professional advisers would reasonably require to make an informed assessment of whether to accept AIB's offer is:

- (a) the information contained in the Bidder's Statement (which you should have received);
- (b) the information contained in HHY's 2016 annual report (available from www.aurorafunds.com.au/investment-funds/hastings_high_yield_fund/financial-statements/);
- (c) the information contained in HHY's releases to ASX prior to the date of this target's statement (available from www.asx.com.au); and
- (d) the information contained in this target's statement.

In deciding what information should be included in this target's statement, the directors have had regard to:

- (a) the nature of the HHY Units;
 - (b) the matters that holders of HHY Units may reasonably be expected to know;
 - (c) the fact that certain matters may reasonably be expected to be known to their professional advisers; and
 - (d) the time available to HHY to prepare this target's statement.
-

7. Glossary

7.1 Definitions

In this target's statement, unless the context otherwise requires:

AIB means Aurora Global Income Trust ARSN 127 692 406 or Aurora as its responsible entity, whichever is relevant;

AIB Unit means a fully paid ordinary unit in AIB;

ASIC means Australian Securities and Investments Commission;

ASX means ASX Limited or the Australian Securities Exchange operated by ASX Limited, whichever is relevant;

Aurora means Aurora Funds Management Limited ABN 69 092 626 885;

Bidder's Statement means the bidder's statement issued by Aurora as responsible entity of AIB and dated 18 November 2016, including an offer dated 28 November 2016 to acquire all of the HHY Units on the terms and conditions set out in that statement;

Corporations Act means the *Corporations Act 2001* (Cth);

HHY means HHY Fund ARSN 112 579 129 or Aurora as its responsible entity, whichever is relevant;

HHY Unit means a fully paid ordinary unit in HHY;

Independent Chairman means Jim Hallam, being the director of Aurora delegated the powers of the directors of Aurora as responsible entity of HHY in relation to HHY's response to AIB's takeover bid, including the preparation of this target's statement; and

Responsible Entity means Aurora as responsible entity of HHY.

7.2 Interpretation

In this target's statement, headings and bold typing are included for convenience only and do not affect interpretation and, unless the context otherwise requires:

- (a) a reference to a word includes the singular and the plural of the word and vice versa;
 - (b) a reference to a gender includes any gender;
 - (c) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
 - (d) a term which refers to a person includes a company, a partnership, an association, a corporation, a body corporate, a joint venture, a sovereign state, a government or a government department or agency;
 - (e) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
 - (f) a reference to a section, annexure, schedule or other part is a reference to an item of that type in this target's statement;
 - (g) a reference to a statute or regulation or a provision of a statute or regulation is a reference to that statute, regulation or provision as amended or a statute, regulation or provision replacing it, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws made or issued under that statute;
-

- (h) a reference to writing includes email and facsimile transmission;
 - (i) a reference to a time is a reference to Melbourne time;
 - (j) a monetary reference is a reference to Australian currency; and
 - (k) a word or term defined in the Corporations Act has the same meaning in this target's statement.
-

Approval of target's statement

This target's statement has been approved by a resolution passed unanimously by the directors of the Responsible Entity.

Signed for and on behalf of **Aurora Funds Management Limited** as responsible entity of the **HHY Fund**

A handwritten signature in black ink, appearing to read 'Hallam', with a long, sweeping horizontal stroke extending to the right.

.....
Jim Hallam
Independent Chairman

Corporate directory

Aurora Funds Management Limited ABN 69 092 626 885
as responsible entity of the HHY Fund ARSN 112 579 129

Registered office

Level 6
2 Russell Street
Melbourne VIC 3000

Directors

Jim Hallam (Independent Chairman)
John Patton
Betty Poon

Independent expert

PKF Corporate Finance (NSW) Pty Limited
Level 8
1 O'Connell Street
Sydney NSW 2000

Lawyers

Norton Gledhill
Level 23
459 Collins Street
Melbourne VIC 3000

Schedule Independent expert report



HHY Fund

Takeover Offer for HHY Fund

Independent Expert's Report

9 December 2016



9 December 2016

The Independent Director
HHY Fund
C/- Aurora Funds Management Limited
Level 6, 2 Russell Street
MELBOURNE VIC 3000

Dear Sir,

INDEPENDENT EXPERT'S REPORT IN RELATION TO THE TAKEOVER PROPOSAL RECEIVED FROM AURORA GLOBAL INCOME TRUST

Introduction

On 29 September 2016, Aurora Funds Management Limited ("**Aurora**") in its capacity as responsible entity for Aurora Global Income Trust ("**AIB**") announced its intention to submit a takeover proposal to acquire 100% of the issued units of HHY Fund ("**HHY**"). On 18 November 2016, AIB submitted a Bidder's Statement to the Australian Securities & Investments Commission ("**ASIC**") setting out the terms of the takeover proposal (the "**Offer**"). We note that Aurora acts as responsible entity for both AIB and HHY.

The consideration ("**Consideration**") offered to the unitholders of HHY ("**HHY Unitholders**") consists solely of units in AIB ("**AIB Consideration Units**"). The Offer is conditional upon, amongst other things, the following material conditions:

- there is no change in the responsible entity of AIB or HHY up to the close of the Offer;
- the net asset value of HHY does not fall below \$0.124 per HHY Unit up to the close of the Offer;
- there being no material adverse changes to HHY or the business of HHY;
- there are no distributions made by HHY; and
- all regulatory approvals to grant the Offer and for the Offer to be accepted are obtained.

We note that the Offer is not subject to any minimum acceptances by HHY Unitholders. Further, we note that where AIB obtains 90% or more of HHY Units, it is the intention of AIB to exercise its rights at such time to compulsorily acquire any remaining HHY Units not acquired under the Offer.

Further information on the Offer is set out in **Section 1** of this report ("**Report**"), in the Bidder's Statement issued by AIB and in the Target's Statement issued by HHY which this Report accompanies.

Requirement for an Independent Expert's Report

This Report has been prepared by PKF Corporate Finance (NSW) Pty Limited ("**PKFCF**") to assist the independent director of Aurora (in its capacity of responsible entity of HHY) in relation to his obligations arising under Section 640 of the *Corporations Act 2001 (Cth)* ("**Corporations Act**") which requires HHY to provide a report by an Independent Expert that states whether, in the expert's opinion, the Offer is "fair" and "reasonable" to the HHY Unitholders.

This Report has also been prepared to assist the HHY Unitholders in considering whether or not to accept the Offer.

Further details of the above regulatory requirements can be found in **Section 1.3** of this Report.

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For our office locations visit www.pkf.com.au



Summary of Conclusions

In summary, our opinion is that the Offer is neither “fair” nor “reasonable” to HHY Unitholders.

In assessing reasonableness, we have considered the advantages and disadvantages of the Offer to HHY Unitholders. Overall, whilst the advantages would ordinarily outweigh the disadvantages, the potential capital gains taxation liability that may arise for HHY Unitholders by accepting the Offer have led us to conclude that the Offer is “not reasonable”.

In the event that at least 80% of HHY Unitholders accepted the Offer, there would be no potential taxation liability arising the HHY Unitholders. Accordingly, in that circumstance, we would conclude that the Offer is “reasonable”.

Set out below is a summary of how we have reached our conclusions:

Fairness

Our fairness assessment has been undertaken on the basis that the Offer is a “control transaction” for the purposes of Regulatory Guide 111 *Content of Expert Reports* issued by ASIC (“**RG 111**”).

Our assessment as to whether or not the Offer is “fair” under RG 111 has been undertaken assuming the number of AIB Consideration Units to be issued to HHY Unitholders is based on the fair market value of HHY and AIB as at 31 October 2016 (“**Valuation Date**”). Our assessment is set out in the following table:

Table 1: Fairness Assessment

	Note / Report Reference	Low	Mid-Point	High
Fair Market Value of What is Being Given up by HHY Unitholders:				
Assessed Fair Market Value of a HHY Unit (Control Basis) (a)	8.3.2	\$0.1234	\$0.1234	\$0.1234
Fair Market Value of Consideration being offered to HHY Unitholders:				
Assessed Fair Market Value of a Merged Entity Unit (Minority Basis) (b)	8.5.2	\$0.6750	\$0.6937	\$0.7125
Number of AIB Consideration Units to be Issued per HHY Unit under Offer (c)	8.5.2	0.1616	0.1616	0.1616
Fair Market Value of Consideration per HHY Unit ((b)x(c)=(d))		\$0.1091	\$0.1121	\$0.1152
Fairness Assessment:				
Is the Proposed Takeover Fair or Unfair?		Unfair	Unfair	Unfair
By how much? ((d)-(a))		-\$0.0143	-\$0.0113	-\$0.0083
As a % of the Assessed Fair Market Value of a HHY Unit (Control Basis)		-11.6%	-9.2%	-6.7%

Source: PKFCF Analysis



In accordance with the requirements of RG 111, the comparison of value must be made between a controlling interest value of a HHY Unit and a minority interest value of a unit in the merged entity comprising HHY and AIB ("**Merged Entity**") ("**Merged Entity Unit**"). This form of analysis does not reflect the fact that HHY Unitholders currently hold a minority interest in HHY.

As our assessment is that the controlling interest value in a HHY unit is likely to exceed the minority interest value of an equivalent Merged Entity Unit, we have concluded that the Offer is "**not fair**" to HHY Unitholders as a whole.

Reasonableness

In order to assess whether the Offer is "reasonable", we have considered whether it is "fair" and if it is not, whether we believe that there are sufficient reasons for HHY Unitholders to accept the Offer.

The following table set out a summary of the advantages and disadvantages which we have considered as part of our analysis. Detailed commentary of the advantages and disadvantages listed below are set out in **Section 8.7** of this Report.

Table 2: Advantages & Disadvantages of the Offer

Advantages	Disadvantages
<ul style="list-style-type: none"> • Valuation Assessment – the "fairness" assessment has been based on a comparison of HHY on a "control basis" with the value of AIB on a "minority basis". If the comparison had simply been undertaken by undertaking a comparison of the respective net asset values of HHY and AIB (as contemplated by the formula used to determine the Consideration), then HHY Unitholders would have been assessed to receive value in the Merged Entity at least equal to their current status, assuming to adverse tax consequence to accepting HHY Unitholders. • Access to Redemption Facility – becoming an AIB Unitholder provides HHY Unitholders with the potential access to a redemption facility. However, the limitations of such facility should be noted. • Synergy Benefits – the Offer should result in certain scale synergies. • Improved Liquidity – AIB Units are more liquid than HHY Units. • Taxation – assuming that there is acceptance by 80% or more of HHY Unitholders, there should be no taxation implications for HHY Unitholders. 	<ul style="list-style-type: none"> • Historical Performance of Aurora – when benchmarked against other Australian LIC entities, the performance of funds managed by Aurora's has in general, been inferior to those LIC's, including HHY which is currently managed by Keybridge. • Uncertainty of the Offer – the Bidder's Statement does not provide any clarity regarding the likely consequences of the Offer being unsuccessful to the future of HHY and HHY Unitholders' investment in HHY. • Uncertain Taxation Consequences – if less than 80% of HHY Unitholders accept the Offer, it is likely that the Offer will result in HHY Unitholders being unable to take advantage of capital gains tax rollover relief. This may result in capital gains tax being payable upon acceptance of the Offer, which would create an additional impost to accepting HHY Unitholders. We note that WAM holds greater than 20% of HHY Units. • Suitability of Investment Strategy – the investment strategy of AIB is different to HHY's investment strategy and may not suite that of HHY Unitholders.

Source: PKFCF analysis



Implications for HHY Unitholders of Rejecting the Offer

Given that there is no minimum acceptance level for the Offer, it is difficult to predict the consequences that may arise to HHY Unitholders if they do not accept the Offer.

In our view, the following foreseeable scenarios may occur in the event that AIB does not obtain at least 90% acceptance for the Offer (and accordingly does not compulsorily acquire remaining HHY Units):

Scenario 1: HHY Remains Listed on the ASX

In the case that HHY remains listed on the ASX upon closing of the Offer, HHY Unitholders who do not accept the Offer will be subject to the following consequences:

- depending on the level of acceptances of the Offer, the liquidity of HHY Units may significantly deteriorate; and
- depending on level of acceptances and consequent impact on liquidity, the value of HHY Units may be subject to significant uncertainty.

Scenario 2: HHY Becomes an Unlisted Trust

As set out in **Section 1.2** of this Report, where AIB does not obtain 100% control of HHY, HHY may become an unlisted trust. Where this occurs, HHY Unitholders who do not accept the Offer will be subject to the following consequences:

- their units in HHY will not be able to be traded on the ASX and may become difficult to realise; and
- the value of HHY Units will be subject to significant uncertainty.

Conclusion as to Reasonableness

The above advantages would ordinarily be compelling to HHY Unitholders. However, the potential taxation liability that may arise for HHY Unitholders by accepting the Offer would detract from the benefits that could be achieved from the Offer and for this reason, we have viewed the Offer as "**not reasonable**".

Other Matters

Summary

This section sets out a summary of our Report and its conclusions. You should read our complete Report, which sets out in full the purpose, scope, sources of information, basis of evaluation, limitations, analysis and our findings.

Scope, Limitations & Use of this Report

Full details of the scope, limitations and other qualifications to this Report are set out in **Section 2**.

The scope of the procedures undertaken in preparing this Report does not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards.

The Report was prepared in accordance with APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited.

The Report has been prepared at the request, and for the benefit, of the Independent Director of HHY and for the benefit of the HHY Unitholders. The Report was not prepared for any purpose or for the benefit of any other party, other than that stated in this Report.

Investors' Individual Circumstances

Our analysis has been undertaken, and our conclusions are expressed, at an aggregate level. PKFCF has not considered the effect of the proposals on the particular circumstances of individual HHY Unitholders.



Some individual HHY Unitholders may place a different emphasis on various aspects of the proposals from that adopted in this Report. Accordingly, individual HHY Unitholders may reach different conclusions as to whether or not the Offer is "fair" and "reasonable" in their individual circumstances. As the decision of individual HHY Unitholders in relation to the Offer may be influenced by their particular circumstances (including their taxation position), HHY Unitholders are advised to seek their own independent advice.

Financial Services Guide

A financial services guide is attached to this Report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Vince Fayad', is positioned above the name and title of the signatory.

Vince Fayad
Director

A handwritten signature in black ink, appearing to read 'Andrew Jones', is positioned above the name and title of the signatory.

Andrew Jones
Director



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1. The Takeover Offer

1.1. Background

On 29 September 2016, Aurora (in its capacity as responsible entity for AIB) announced its intention to submit a takeover proposal to acquire 100% of the issued units of HHY. On 18 November 2016, AIB submitted a Bidder's Statement to ASIC setting out the terms of the Offer.

We note that Aurora acts as responsible entity for both AIB and HHY.

The Consideration offered to HHY Unitholders consists solely of units in AIB to be calculated as follows:

<i>Number of AIB Units to be Issued</i>	<i>=</i>	<i>NAV of HHY on the Closing Date</i>	<i>/</i>	<i>NAV of AIB on the Closing Date</i>	<i>X</i>	<i>Number of HHY Units the HHY Unitholder has elected to accept in the Offer</i>
		<i>Number of HHY Units on Issue on the Closing Date</i>		<i>Number of AIB Units on Issue on the Closing Date</i>		

The Offer is conditional upon, amongst other things, and below are the following material conditions:

- there is no change in the responsible entity (i.e. Aurora) of AIB or HHY up to the close of the Offer;
- the net asset value of HHY does not fall below \$0.124 per HHY Unit up to the close of the Offer;
- there being no material adverse changes to HHY or the business of HHY;
- there being no distributions made by HHY; and
- all regulatory approvals to grant the Offer and for the Offer to be accepted are obtained.

We note that the Offer is not subject to any minimum acceptances by HHY Unitholders. Further, we note that where AIB obtains 90% or more of HHY Units, it is the intention of AIB to compulsorily acquire any remaining HHY Units not acquired under the Offer.

Further details can be found in the Bidder's Statement issued by AIB and the Target's Statement to which this Report accompanies.

1.2. Bidder's Intentions

Section 9 of the Bidder's Statement sets out the following intentions of Aurora:

- in the case that AIB obtains 90% or more of HHY Units, Aurora intends to:
 - compulsorily acquire the remaining HHY Units it did not acquire under the Offer;
 - make no changes to the board of Aurora;
 - conduct an immediate review of HHY's assets, portfolio and investments with the key objective to ascertain the extent of any changes required to improve the performance of HHY and to achieve a strategic fit with the business objectives of AIB;
 - conduct the businesses of HHY and AIB in such a way as to minimise the separate costs incurred in respect of each of them and enhance the efficiency of both funds; and
 - make no changes to the staffing levels necessary to manage HHY;



- in the case that AIB obtains less than 90% of HHY Units, HHY Unitholders who do not accept the Offer may remain as minority HHY Unitholders and the consequences of this may include:
 - HHY becoming unsuitable to continue to be listed on the ASX. If HHY is delisted from the ASX, any remaining HHY Unitholders will remain holding HHY Units which cannot be actively traded;
 - if HHY remains listed on the ASX, the liquidity of HHY Units may significantly deteriorate and inhibit the ability of minority HHY Unitholders to realise their holdings at close to NTA value, or realise their holdings at all;
 - AIB acquiring additional HHY Units on market under the "creep" provisions of the Corporations Act which permit AIB to acquire up to 3% of HHY Units every six months; and
 - AIB will continue to support Keybridge as investment manager of HHY.

In addition to the above, we have been advised the following by Aurora:

- in the case that AIB obtains 90% or more of HHY Units, Aurora intends to enter into commercial discussions with Keybridge with the view of acquiring the rights to manage HHY. It is Aurora's expectation that Aurora would bear the cost of acquiring these management rights and would not seek to be reimbursed by HHY; and
- in the case that AIB obtains less than 90% of HHY Units, Aurora would undertake a review of the circumstances at the time of the Offer closing in order to determine how best to minimise the potential duplication in management which would ordinarily arise by virtue of AIB only having a partial interest in HHY.

Management of Aurora have indicated that this may include Aurora rebating a portion of the management fees that would otherwise be payable to Aurora by AIB, with respect to the value of AIB's investment in HHY.

We note that the above intentions have not been documented formally or agreed.

1.3. Regulatory Requirements

1.3.1. Unitholder Approvals Required

There are no approvals required on behalf of HHY Unitholders in relation to the Offer. Acceptance of the Offer is at the individual choice of each HHY Unitholder.

1.3.2. Requirement for an Independent Expert Report

This Report has been prepared in order to meet the following requirements:

- **Section 640** of the Corporations Act requires HHY to provide a report by an Independent Expert that states whether, in the expert's opinion, the Offer is "fair" and "reasonable" to the HHY Unitholders.



2. Purpose, Scope & Reliance on Information

2.1. Purpose

This Report has been prepared at the request, of and for the benefit, of the independent director of HHY and for the benefit of HHY Unitholders, to assist the independent director in fulfilling his obligation to provide HHY Unitholders with full and proper disclosure to enable him to assess the merits of the Offer and to decide whether to recommend to HHY Unitholders to accept or reject the Offer. This Report is to accompany the Target's Statement to be provided to HHY Unitholders.

This Report was not prepared for any other purpose or for use by any other person. PKFCF does not accept any responsibility to any person other than the independent director and HHY Unitholders or for the use of the Report outside the stated purpose without the written consent of PKFCF. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

PKFCF has provided its consent for this Report to accompany the Target's Statement. Apart from the Report, PKFCF is not responsible for the contents of the Target's Statement, or any other document or announcement associated with the Offer. PKFCF acknowledges that its Report may be lodged with regulatory bodies.

Acceptance or rejection of the Offer is a matter for individual HHY Unitholders based on their expectations as to various factors including the value and future prospects of HHY and/or AIB, the future intentions and actions of VAM, the skills of Aurora, the terms of the Offer, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. HHY Unitholders should carefully consider the Bidder's Statement, the Target's Statement and this Report. HHY Unitholders who are in doubt as to the action they should take in relation to the Offer should consult their professional adviser.

2.2. Scope

The scope of the procedures we undertook in forming our opinions was limited to those procedures we believe are required in order to form our opinion.

2.2.1. Sources of Information

Appendix 2 identifies the information referred to, and relied upon, by PKFCF during the course of preparing this Report and forming our opinion.

2.2.2. Reliance on Information

The statements and opinions contained in this Report are given in good faith and are based upon PKFCF's consideration and assessment of information provided by Aurora, HHY and AIB. PKFCF believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, inquiry and review for the purpose of forming our opinion. The procedures adopted by PKFCF in forming our opinion may have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we do not express an audit or review opinion.

It was not PKFCF's role to undertake, and PKFCF has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Offer. PKFCF understands that the directors of HHY, AIB and Aurora have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary.



PKFCF does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the directors of HHY, AIB, Aurora and/or their advisors.

An opinion as to whether a corporate transaction is "fair" and/or "reasonable" is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that PKFCF advises that it is not in a position, nor is it practical for PKFCF, to undertake a detailed investigation or extensive verification exercise.

It is understood that, except where noted, the accounting information provided to PKFCF was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by HHY and AIB in previous accounting periods.

In accordance with normal practice, prior to finalising the Report, we confirmed facts with Aurora (in its capacity as responsible entity of HHY and AIB). This was undertaken by means of providing Aurora with a draft report. PKFCF obtained a representation letter from Aurora confirming that, to the best knowledge of Aurora, the information provided to, and relied upon by, PKFCF was complete and accurate, and that no significant information essential to the Report was withheld.

Aurora agreed to indemnify PKFCF and PKF and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to PKFCF by Aurora and/or HHY and/or AIB, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.2.3. Valuation Date

The opinions expressed in this Report are made as at 31 October 2016 ("**Valuation Date**").

2.2.4. Valuation

Fair market value

The assessment of whether the Offer is "fair" and "reasonable" necessarily involves determining the "fair market value" of various securities, assets and interests.

For the purposes of our opinion, the term "fair market value" is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Therefore, there is no indisputable value and we normally express our valuation opinion as falling within a likely range.

Special value

We have not considered special value in forming our opinion as to whether the Offer is "fair". Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the particular potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.



2.2.5. Current Market Conditions

Our opinions are based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly out dated and in need of revision. PKFCF reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to PKFCF.

2.2.6. Assumptions

In forming our opinions, we made certain assumptions, including the following:

- other than as publicly disclosed, all relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts are in good standing, and will remain so and there is no alleged or actual material breach of the same or dispute in relation thereto (including, but not limited to, legal proceedings), and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding;
- that matters such as retention of key personnel and ownership of assets are in good standing, and will remain so;
- any public information used in relation to HHY, AIB and/or Aurora and any other publicly available information relied on by us, is accurate and not misleading and up to date;
- information in relation to the Offer that is distributed to HHY Unitholders, or any information issued by a statutory body is complete, accurate and fairly presented in all material respects;
- the legal mechanisms proposed to implement the Offer are valid and effective;
- if the Offer is accepted, it will be implemented in accordance with the Bidder's Statement submitted by AIB; and
- that the resolutions at the Meeting are rejected.



3. Basis of assessment

3.1. "Fair" and "Reasonable"

Section 640 of the Corporations Act requires HHY to provide a report by an Independent Expert that states whether, in the expert's opinion, the Offer is "fair" and "reasonable" to the HHY Unitholders.

Further guidance is provided by Regulatory Guides issued by ASIC and in particular, Regulatory Guide 111 *Content of Expert Reports* ("RG 111"). RG 111 indicates that, in the context of a "control transaction", the words "fair" and "reasonable" establish two distinct criteria:

- is the Offer "fair"; and
- is it "reasonable".

Fair

Under RG 111.11, the Offer will be "fair" if the value of the offer price or consideration is equal or greater than the value of the securities the subject of the Offer. This comparison should be made;

- a) assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length;
- b) assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares or units being acquired represent a minority of 'portfolio' parcel of shares or units.

Reasonable

Under RG 111, the Offer will be "reasonable" if it is "fair". If the Offer is "not fair", it may still be "reasonable", if the expert believes that there are sufficient reasons for HHY Unitholders to accept the Offer.

ASIC has identified a number of factors which an expert might consider when determining whether the Offer is "reasonable", including the following:

- any other alternative proposals put forward to HHY and/or HHY's Unitholders;
- AIB's pre-existing voting power in the securities HHY;
- other significant security holding blocks in HHY. In this regard we note that Keybridge and WAM hold a 24.76% and 20.81% interest in the issued units of HHY, respectively;
- the liquidity of the market in HHY's securities;
- taxation losses, cash flow or other benefits through achieving 100% ownership of HHY;
- any special value of the target to AIB, such as particular technology, the potential to write off outstanding loans from the target, etc;
- the likely market price if the Offer is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative offer being made.



3.2. PKFCF's Approach

PKFCF has undertaken the following in assessing the Offer.

3.2.1. "Fair"

In our opinion, the Offer will be "fair" if the value of the offer price or consideration offered by AIB to HHY unitholders is equal to or greater than the value of the HHY Units subject of the Offer. We have assessed whether the Offer is "fair" to the HHY Unitholders by comparing:

- the fair market value of a HHY Unit on a controlling interest basis (as required by RG 111), before the completion of the Offer (i.e. the price that a bidder would have to pay to acquire full control of HHY), with
- the fair market value of the consideration being offered to HHY Unitholders. This consideration will be units in the Merged Entity on a minority interest basis (as required by RG 111), assuming that the Offer is accepted by 100% of HHY Unitholders.

3.2.2. "Reasonable"

Under RG 111, the Offer will be "reasonable" if it is "fair". The Offer may also be "reasonable" if, despite being "not fair", there are sufficient reasons for HHY Unitholders to accept the Offer in the absence of any better opportunities at the time of voting.

This assessment has largely been undertaken by considering whether in our opinion, the advantages of accepting the Offer sufficiently outweigh the disadvantages for HHY Unitholders as a whole.

Having regard to the factors listed by ASIC in RG 111.13, we considered the following factors in assessing the reasonableness of the Offer:

- the value of a HHY Unit on a minority basis compared to the value of a Merged Entity Unit on a minority basis;
- the pre-existing voting power of AIB (and its related entities) in HHY;
- other significant security holdings in HHY and AIB pre and post-Offer;
- the liquidity of the market and HHY's and AIB's securities;
- taxation losses, cash flow or other benefits of the Offer;
- any special value of HHY to AIB (including its related entities);
- the value of HHY to an alternative offeror;
- the likely market price if the Offer is unsuccessful;
- the value to an alternative bidder and likelihood of an alternative offer being made; and
- the value to HHY Unitholders of any alternative proposals put forward. We note that in this case, a proposal to wind up HHY has been previously been put forward by WAM.



4. Profile of HHY Fund

4.1. Background

HHY, established on 19 January 2005, is an Australian based closed-ended investment trust listed on the ASX. HHY aims to provide exposure for unitholders to high yield securities in the form of loans and hybrid securities issued by Australian listed entities and international entities from OECD countries, and unlisted and unrated securities that are not otherwise readily accessible to ASX investors.

On 30 June 2015, Aurora was appointed as responsible entity of HHY. Please refer to **Section 6** of this Report for further information about Aurora. The appointment of Aurora was approved by HHY Unitholders during the general meeting held on 29 June 2015. At the time of Aurora's appointment as responsible entity of HHY, the executive team engaged by Aurora to manage HHY's investments was employed by Keybridge Capital Limited ("**Keybridge**"), being its parent entity.

On 30 June 2016, Aurora was sold by Keybridge. However, Keybridge retained the rights as investment manager of HHY, with Aurora remaining the responsible entity.

In the last few months leading up to the date of this Report, Wilson Asset Management (International) Pty Limited (and/or its associated entities) ("**WAM**"), as a major unitholder in HHY, has put forward a number of proposals regarding the management and ultimate future of HHY. Set out below is a summary and timeline of the proposals put forward by WAM:

Table 3: WAM Proposal & Timeline

Date	Details
3 & 9 August 2016	WAM (and its associated entities) issued notices to Aurora (as responsible entity of HHY) requisitioning a general meeting to enable HHY Unitholders to consider resolutions to: <ul style="list-style-type: none"> remove Aurora as responsible entity of HHY; appoint One Managed Investments Funds Limited ("One Managed Investments") as responsible entity of HHY; and to direct One Managed Investments to wind up HHY.
23 August 2016	In response to the requisition received from WAM, Aurora as responsible entity of HHY, issued a Notice of Meeting to be held 29 September 2016 in relation to the resolutions put forward by WAM.
29 September 2016	Prior to the meeting of HHY Unitholders, Aurora as responsible entity of HHY, was informed by Aurora as responsible entity of AIB that AIB intended to make a takeover bid for 100% of HHY Units (i.e. the Offer). As a result, the meeting of HHY Unitholders was adjourned to enable information relating to the Offer to be provided to HHY Unitholders. No resolutions were put at the meeting of HHY Unitholders.
10 November 2016	WAM (and its associated entities) issued a Notice of Meeting to be held on 6 December 2016 to enable HHY Unitholders to consider resolutions to: <ul style="list-style-type: none"> remove Aurora as responsible entity of HHY; and appoint Record Funds Management Limited ("Record Funds Management") as responsible entity of HHY. Record Funds Management is a member of the One Investment Group.
6 December 2016	During the meeting held on 6 December 2016, the proposals put forward by WAM were not passed by HHY Unitholders.

Source: ASX



4.2. Management

4.2.1. Responsible Entity

The responsible entity of HHY is Aurora. Further details regarding Aurora can be found in **Section 6** of this Report.

4.2.2. Investment Manager

Keybridge is the investment manager of HHY.

Keybridge was established in October 2006 as a listed investment company with a focus on investment in aviation, shipping, property, private equity and infrastructure.

Keybridge holds a diversified portfolio of assets including interests in Australian and international listed and unlisted equity and debt securities. Keybridge is listed on the ASX under the ticker, KBC. Keybridge is the former owner of Aurora having sold this venture to Seventh Orion Pty Ltd ("**Seventh Orion**") on 30 June 2016. Seventh Orion's sole owner is John Patton, the Managing Director of Aurora.

We note that Keybridge is also the largest unitholder of HHY with 22,646,973 units or 24.76% of total units outstanding.

Set out below is a summary of the key terms of the investment management agreement:

Table 4: Key Terms of Investment Management Agreement

Term	Details
Initial Term	<ul style="list-style-type: none"> Review 3 years from the commencement date (being 30 June 2016 to 30 June 2019).
Extension Term	<ul style="list-style-type: none"> Ongoing subject to reviews every 3 years.
Base Fee	<ul style="list-style-type: none"> Responsible entity Fees – the higher of \$100,000 per annum or 0.5-% of the market capitalisation. Investment managers remuneration – until such time that the investment manager has invested in at least \$100 million in investments, 0.40% per annum of the market capitalisation of HHY, other wise 0.75% per annum of the market capitalisation of HHY (HHY Constitution, Schedule 3).
Incentive Fee	<ul style="list-style-type: none"> 20% of the fund return for a period above the benchmark return for the period. If the fund return for a period is less than the benchmark return for that period, the amount of the deficit is carried forward and taken into account in calculating whether the fund return exceeds the benchmark return in subsequent periods (HHY Constitution, Schedule 3).
Termination / Break Fees	<ul style="list-style-type: none"> If the agreement is terminated by the responsible entity following a "review event", then the responsible entity must pay, or procure that a third party pay, to the investment manager a sum equal to such fees as the manager has earned as a result of the manager's management of HHY over the three years immediately prior to the termination.

Source: Keybridge Capital Limited Investment Management Agreement



4.3. Investment Strategy

4.3.1. Background

Historically, HHY's investment strategy focused on exposure to high yield securities in the form of loans and hybrid securities issued by Australian entities and international entities from OECD countries, and unlisted and unrated securities that are not readily accessible to ASX investors.

On 19 August 2015, the investment manager expanded the investment strategy to include the ability to invest in listed Australian and international equities and international securities, options, convertible securities and other derivative securities with a focus on value investing. Each of the investments would be actively managed and selected at the discretion of the investment manager.

In addition, the investment manager is permitted to reduce part of the equity market exposure by short selling securities, or using appropriate levels of interest rate or currency hedging to limit exposures to fluctuations in those markets without sacrificing long term performance. HHY may also use borrowings to increase its levels of investments into the expanded investment strategy.

We have been instructed that the investment strategy of HHY is in accordance with the investment objectives and guidelines as set out in the governing documents of HHY and in accordance with the provisions set forth in HHY's constitution. Furthermore this investment strategy is expected to continue for HHY.

4.3.2. Investment Holdings

As at 31 October 2016, HHY had a portfolio of 19 investments spread across listed domestic and international shares (including short positions), and unlisted convertible notes, bonds and loans totalling \$9.2 million. In addition, HHY had cash holdings of approximately \$2.4 million as at 31 October 2016.



4.4. Ownership

4.4.1. Overview

As at 31 October 2016, HHY had 91,466,389 units on issue. Set out below are the top twenty (20) unitholders of HHY as at 31 October 2016

Table 5: Top Twenty (20) Unitholders of HHY as at 31 October 2016

#	Unitholders	Balance	% Held
1	Keybridge Capital Limited	22,646,973	24.76%
2	RBC Investor Services Australia Pty Limited (WAM)	19,033,404	20.81%
3	IOOF Investment Management Limited	4,239,568	4.64%
4	LIC Investments Pty Ltd	2,800,000	3.06%
5	AET SFS Pty Ltd	2,694,789	2.95%
6	LOG Creek Pty Ltd	2,334,243	2.55%
7	BT Portfolio Services Limited	968,362	1.06%
8	CSALT Super Pty Ltd	807,379	0.88%
9	Forsyth Barr Custodians Ltd	774,053	0.85%
10	HSBC Custody Nominees (Australia) Limited	560,051	0.61%
11	Kentia Holdings Pty Ltd	500,000	0.55%
12	Mr Gennarino Bartolomeo & Mrs Anna Maria Bartolomeo	500,000	0.55%
13	Abbawood Nominees Pty Ltd	400,002	0.44%
14	RPD Pty Ltd	392,723	0.43%
15	Lockhart Holdings Pty Ltd	370,519	0.41%
16	IOOF Investment Management Limited	347,815	0.38%
17	Mr Craig Anthony Turton	336,500	0.37%
18	Mr Gnanasundaram Gnaranatham	327,000	0.36%
19	Eseal Pty Ltd	300,000	0.33%
20	Australian Executor Trustees Limited	299,170	0.33%
Total Top 20 Unitholders		60,632,551	66.29%
Other Unitholders		30,833,838	33.71%
All Unitholders		91,466,389	100.00%

Source: Aurora Funds Management Limited management

In relation to the above we note the following:

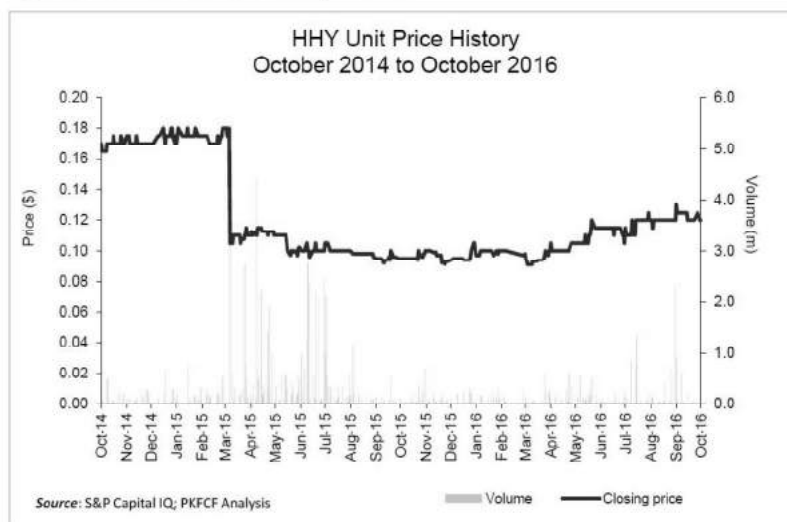
- Keybridge is the largest HHY Unitholder, with an approximate 24.76% interest in the issued units of HHY as at 31 October 2016;
- Keybridge is the former owner of Aurora having sold this venture to Seventh Orion on 30 June 2016. Seventh Orion's sole owner is John Patton, the Managing Director of Aurora;
- on 30 June 2016, Keybridge entered into an investment management agreement with Aurora in relation to HHY; and
- RBC Investor Services Australia Pty Ltd, on behalf of WAM is the second largest HHY Unitholder with an approximate 20.81% interest in the issued units of HHY as at 31 October 2016.



4.4.2. Trading Analysis

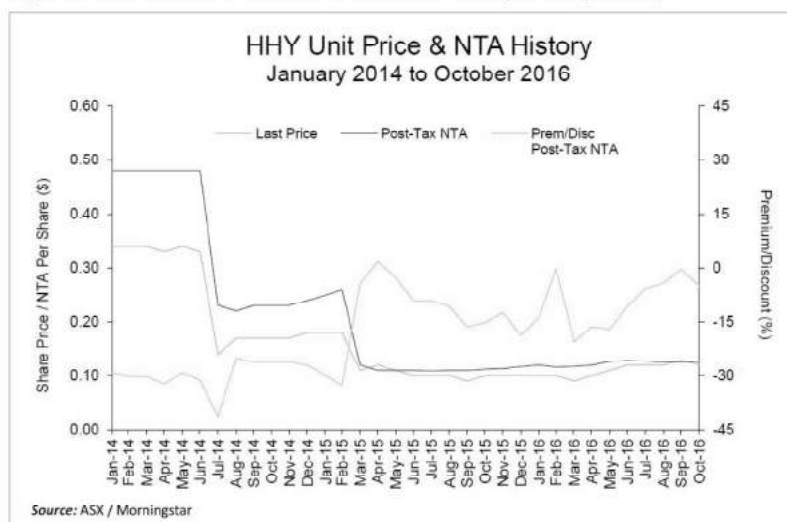
Set out below is a chart setting out movements in the share price and trading volumes pertaining to the units of HHY during the two (2) year period to 31 October 2016:

Figure 1: HHY Unit Price and Trading Volumes



Set out below is an analysis of HHY's unit price, net tangible asset backing per unit (post-tax) ("NTA"), and premium or discount of unit price to NTA for the period 31 January 2014 to 31 October 2016:

Figure 2: HHY Premium or Discount of Unit Price to NTA per Unit (post-tax)





Set out below is a summary of HHY's unit volume weighted average price ("VWAP") and liquidity for the 12 month period to 31 October 2016.

Table 6: HHY Unit VWAP and Liquidity

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	Unit Turnover %
1 week	0.12	0.12	0.12	0.0	0.2	0.2%
1 month	0.12	0.13	0.12	0.1	0.6	0.7%
3 months	0.11	0.13	0.12	1.1	9.3	9.9%
6 months	0.10	0.13	0.12	1.8	15.9	16.8%
12 months	0.09	0.13	0.11	2.8	25.4	26.5%

Source: S&P Capital IQ

In relation to the above, we note the following:

- HHY's unit price has typically traded at a discount to its NTA backing.
During the period January 2014 to October 2016, HHY's units have traded at an average discount of 18.4% to its NTA backing with the highest discount reaching 41.3% in July 2014 and the highest premium reaching 1.8% in April 2015 which we note was the only month in which HHY's units traded at premium over the period. In 10 months to October 2016, the average discount has reduced to 10.4%;
- HHY's stock is reasonably liquid, with approximately 26.5% of total issued units traded over the twelve (12) months to 31 October 2016.

4.5. Distribution History

HHY has not paid any distributions since July 2014.



4.6. Historical Income Statements

The historical consolidated income statements of HHY for the years ended 30 June 2015, 2016 and for the four (4) months ended 31 October 2016, are summarised in the table below:

Table 7: HHY Historical Consolidated Income Statements

(A\$'000)	Year Ended 30 June		4 Months to 31 Oct 2016 (Management Accounts)
	2015 (Audited)	2016 (Audited)	
Investment Income			
Interest Income	1,093	74	(2)
Dividends and Distribution Income	-	313	33
Net Gains/(Losses) on Cash and Cash Equivalents	(93)	(6)	17
Net Gains/(Losses) on Financial Instruments Held at Fair Value through Profit or Loss	(11,950)	1,695	(193)
Other Operating Income	-	66	48
Total Net Investment Income	(10,950)	2,142	(96)
Expenses			
Responsible Entity and Management Fees	(114)	(176)	(61)
Audit and Tax Fees	(41)	(64)	-
Other Operating Expense	(402)	(234)	(97)
Total Operating Expenses	(557)	(474)	(159)
Operating Profit Before Income Tax	(11,507)	1,668	(255)
Income Tax Expense	(150)	-	-
Operating Profit After Income Tax	(11,657)	1,668	(255)

Source: HHY Fund annual reports for the year ended 30 June 2015 and 2016; HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis



4.7. Historical Statements of Financial Position

The historical consolidated statements of financial position of HHY as at 30 June 2015, 2016 and as at 31 October 2016 are summarised in the table below:

Table 8: HHY Historical Consolidated Statements of Financial Position

(A\$'000)	As at 30 June		As at 31 Oct 2016 (Management Accounts)
	2015 (Audited)	2016 (Audited)	
Assets			
Cash and Cash Equivalents	11,611	2,503	2,358
Receivables	5	494	448
Financial Assets Held at Fair Value through Profit or Loss	-	9,822	9,138
Total Assets	11,616	12,819	11,944
Liabilities			
Due to Brokers - Payable for Securities	-	(39)	(72)
Current Tax Liabilities	(158)	-	-
Other Payables	(138)	(11)	-
Financial Liabilities Held at Fair Value through Profit or Loss	-	(556)	(323)
Total Liabilities (excluding net assets attributable to unitholders)	(296)	(606)	(395)
Net Assets Attributable to Unitholders	11,320	12,213	11,549
Liabilities Attributable to Unitholders	(11,320)	(12,213)	(11,549)
Net Assets	-	-	-

Source: HHY Fund annual reports for the year ended 30 June 2015 and 2016; HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis



5. Profile of Aurora Global Income Trust

5.1. Background

Aurora Global Income Trust ("AIB") is a registered managed investment scheme holding approximately \$4.1 million of net assets in funds under management as at 17 November 2016.

AIB is listed on the ASX.

AIB is an absolute return fund which aims to achieve returns in both rising and falling equity markets utilising a number of global investment strategies. This strategy aims to allow AIB to achieve performance of little correlation to the performance of global equity market indexes.

5.2. Management

The responsible entity and investment manager of AIB is Aurora. Further details regarding Aurora can be found in **Section 6** of this Report.

We have been advised by management that there is currently no investment management agreement in place given that Aurora holds both roles.

Accordingly to the product disclosure statement issued by AIB on 1 July 2015, Aurora is entitled to the following fees:

Table 9: Fees Payable to Aurora

Term	Details
Initial Term	<ul style="list-style-type: none"> No term. Ongoing.
Base Management Fee	<ul style="list-style-type: none"> 1.0325% per annum of AIB's net asset value.
Performance Fees	<ul style="list-style-type: none"> 20.5% per annum of the amount that outperformance exceeds the benchmark, calculated and accrued monthly, paid six-monthly. <p>The "benchmark" is equal to the RBA Cash Rate (available from www.rba.gov.au) or other rate determined under the constitution from time to time.</p>
Termination/Break Fees	<ul style="list-style-type: none"> Not applicable.

Source: Investment Management Agreement between Aurora and Aurora in its capacity as responsible entity for AIB; AIB's product disclosure statement dated 1 July 2015.

5.3. Investment Strategy

AIB is an absolute return fund which seeks to make positive returns in both rising and falling equity markets.

The investment manager has a wide discretion over the investments that may be held by AIB.

The overall investment strategy adopted by AIB includes a diverse set of global investment strategies meaning returns are not necessarily dependent on stock market direction, or any other assuming parameter. AIB does not seek to correspond with standard industry benchmarks.

A thorough investment selection process is adopted to include detailed qualitative and fundamental research. This process involves four key steps as summarised below:

- focus on global listed equities and equity derivatives including options and convertible securities;
- preliminary research to ensure investments selected match a given criteria in relation to fundamental and quantitative analysis, mergers and acquisitions, key announcements, liquidity events, recapitalisations, multiple share classes, option availability and pricing;



- identifying trades of mispriced risk in the context of a broad portfolio of equities, options, and other instruments. This includes a continual review of market risk indicators and adoption of a broad range of strategies; and
- trade execution and management on an active basis.

AIB makes use of derivatives for both risk management and opportunistic short positions. In the short term AIB may also use leverage to enhance returns whilst managing an appropriate risk-profile.

The investment strategy of AIB is in accordance with the investment objectives and guidelines as set out in the governing documents of AIB and in accordance with the provisions set forth in AIB's constitution. Furthermore this investment strategy is expected to continue for AIB.

5.3.1. Investment Holdings

As at 31 October 2016, AIB had a portfolio of 26 investments spread across listed domestic and international shares and options (including short positions), and unlisted convertible notes totalling \$2.5 million.

In addition, AIB had cash holdings of approximately \$2.7 million as at 31 October 2016.

5.4. Ownership

5.4.1. Overview

As at 31 October 2016, AIB had 5,268,278 units on issue.

Set out below are the top twenty (20) unitholders of AIB as at 31 October 2016:

Table 10: Top Twenty (20) Unitholders of AIB as at 31 October 2016

#	Unitholders	Balance	% Held
1	Wilson Asset Management (International) Pty Ltd	719,974	13.67%
2	Mr Noel Godfrey Mattocks	210,000	3.99%
3	Public Trust Class 10 Nominees Ltd	207,800	3.94%
4	BT Portfolio Services Limited	203,000	3.85%
5	BT Portfolio Services Limited	195,602	3.71%
6	Venus Bay Pty Ltd	140,000	2.66%
7	Mesk Pty Ltd	140,000	2.66%
8	Mrs Ila Joyce Clarke	140,000	2.66%
9	Burbank Pty Ltd	124,523	2.36%
10	Heatsuper Pty Ltd	105,000	1.99%
11	Mr David Butler & Mrs Margaret Butler	105,000	1.99%
12	Ilewise Pty Ltd	98,000	1.86%
13	HSBC Custody Nominees (Australia) Limited	87,500	1.66%
14	Westpalm Pty Ltd	70,000	1.33%
15	Mr Peter James Plummer & Ms Sarah Rush & Ms Samantha Anne Plummer	70,000	1.33%
16	James E Kenworthy & Gwendoline Kenworthy	70,000	1.33%
17	McMahons Excavations Pty Ltd	70,000	1.33%
18	Jetcorp Nominees Pty Ltd	70,000	1.33%
19	Superland Pty Ltd	63,166	1.20%
20	BT Portfolio Services Limited	61,417	1.17%
Total Top 20 Unitholders		2,950,982	56.01%
Other Unitholders		2,317,296	43.99%
All Unitholders		5,268,278	100.00%

Source: Aurora Funds Management Limited management



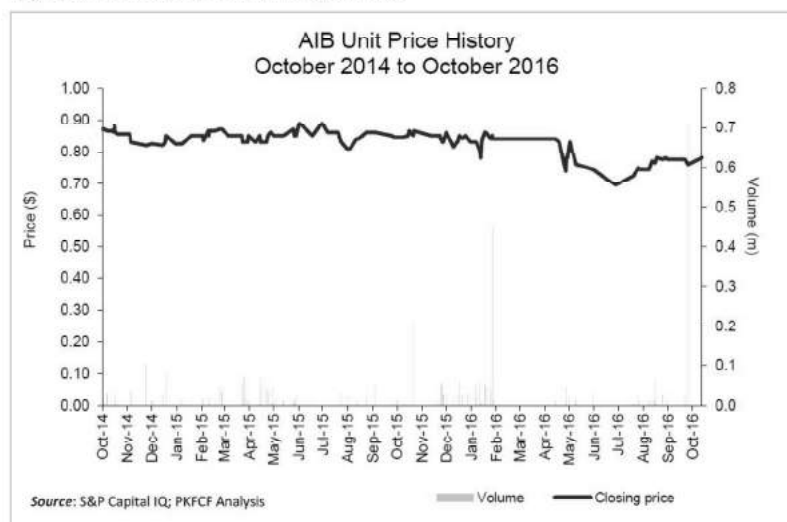
We note that WAM is the largest unitholder of AIB, with a 13.67% interest in AIB.

We also note that there are no unitholders of AIB who are related parties of HHY, Aurora and or any of their related entities.

5.4.2. Trading Analysis

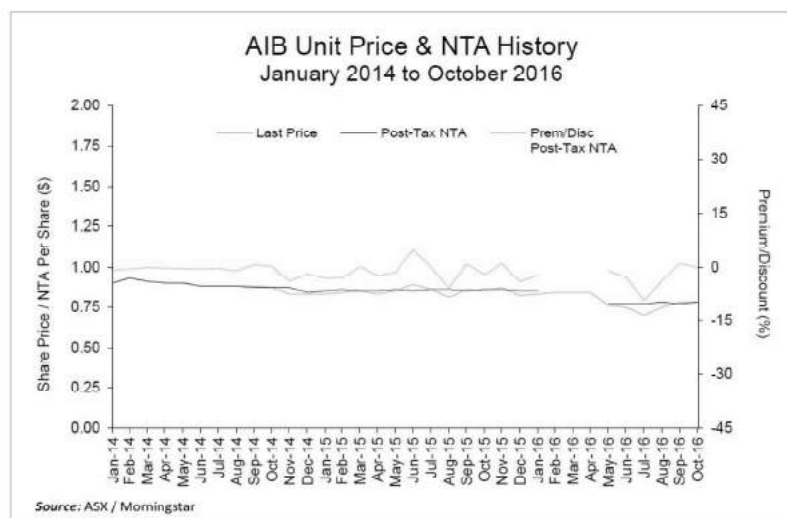
Set out below is a chart setting out movements in the unit price and trading volumes pertaining to the units of AIB during the two (2) year period to 31 October 2016:

Figure 3: AIB Unit Price and Trading Volumes



Set out below is an analysis of AIB's unit price, NTA per unit (post-tax), and premium or discount of unit price to NTA for the period 31 January 2014 to 31 October 2016:

Figure 4: AIB Premium or Discount of Unit Price to NTA per Unit (post-tax)





Set out below is a summary of AIB's unit VWAP and liquidity for the 12 month period to 31 October 2016:

Table 11: AIB Unit VWAP and Liquidity

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	Unit Turnover %
1 week	0.74	0.79	0.78	0.3	0.4	5.6%
1 month	0.74	0.79	0.77	0.8	1.1	17.4%
3 months	0.73	0.79	0.77	1.0	1.3	20.0%
6 months	0.70	0.84	0.77	1.1	1.4	21.6%
12 months	0.70	0.87	0.80	2.2	2.8	42.3%

Source: S&P Capital IQ

In relation to the above we note the following:

- AIB's units have typically traded at a discount to its NTA backing.
During the period January 2014 to October 2016, AIB's units have traded at an average discount of 1.4% to its NTA backing with the highest discount reaching 9.4% in July 2016 and the highest premium reaching 4.7% in June 2015. In 10 months to October 2016, the average discount has increased to 2.7%.
- AIB's stock is reasonably liquid with approximately 42.3% of total issued units traded over the twelve (12) months to 31 October 2016; and
- during the months of February, March and April 2016, Aurora was unable to accurately determine the value of Antares Energy Limited Convertible Notes ("**Antares Notes**") due to the uncertainty over the repayment of the Antares Notes to noteholders. As a result Aurora was unable to publish monthly NTAs for AIB during these months;

5.4.3. Redemption Facility

AIB has in place an off-market redemption facility which provides an opportunity for AIB Unitholders to redeem their units at or close to the NTA backing of an AIB Unit (the "**Redemption Facility**").

The Redemption Facility provides AIB Unitholders with the ability to achieve a liquidity event outside of an on-market sale via the ASX. This is particularly advantageous where the trading prices of AIB's securities on the ASX are below their NTA backing value.

Off market withdrawal requests are processed by AIB on a monthly basis. For withdrawal requests received by the close of business on the 20th day of each month, the withdrawal will be processed using the "redemption price" being the net asset value per unit less sell spread, based on market valuations, at the close of business on the last day of the same month.

The redemption price is normally determined by the 15th day of the following month, with payment made as soon as practical afterwards, although the AIB's constitution allows for payment up to 60 days.

Redemptions may also be suspended for up to 56 days in special circumstances (e.g. where there is material market uncertainty, limited market liquidity, AIB has received redemption requests for more than 5% of the net assets of AIB and/or market closures)

In addition we note the following key points in relation to the Redemption Facility:

- redemption requests must be for a minimum of 2,000 units;
- AIB reserve the right to amend, accept, or refuse any application or redemption request if they are unable to calculate the net asset value. In addition Aurora, may refuse any application or redemption request where its acceptance would cause breach of any law, regulation or obligations under which they operate; and
- where AIB delay a redemption request, but are yet to commence liquidation of assets for the purpose of satisfying the redemption request, unitholders may instruct AIB to withdraw their request.



5.5. Distribution History

Set out below is a history of distributions paid by AIB:

Table 12: AIB Distribution History

Year/Qtr	Aurora Global Income Trust (AIB) (\$)			
	March	June	September	December
2016	0.0170	0.0167	0.0153	n/a
2015	0.0215	0.0212	0.0169	0.0171
2014	0.0225	0.0226	0.0220	0.0216
2013	0.0253	0.0259	0.0255	0.0244
2012	0.0263	0.0263	0.0250	0.0250
2011	0.0300	0.0300	0.0295	0.0272
2010	0.0250	0.0250	0.0250	0.0300
2009	-	0.3300	0.1600	0.0250
2008	-	0.3975	-	0.5700
2007	-	-	-	-

Source: Aurora Funds Management Limited

5.6. Historical Income Statements

The historical consolidated income statements of AIB for the years ended 30 June 2015, 2016 and for the four (4) months ended 31 October 2016, are summarised in the table below:

Table 13: AIB Historical Consolidated Income Statements

(A\$'000)	Year Ended 30 June		4 Months to 31 Oct 2016 (Management Accounts)
	2015 (Audited)	2016 (Audited)	
Investment Income			
Interest Income	123	155	22
Dividends and Distribution Income	78	178	23
Net Gains/(Losses) on Financial Instruments Held at Fair Value through Profit or Loss	304	(197)	(308)
Total Net Investment Income	505	135	(262)
Expenses			
Dividend Expense	(40)	(29)	(6)
Interest Expense	(18)	(19)	(4)
Management Fees	(82)	(72)	(19)
Performance Fees	-	(57)	20
Transaction Costs	(10)	(9)	(2)
Total Operating Expenses	(149)	(185)	(11)
Operating Profit Before Income Tax	356	(50)	(273)

Source: Aurora Global Income Trust annual reports for the year ended 30 June 2015 and 2016; Aurora Global Income Trust management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis



5.7. Historical Statements of Financial Position

The historical consolidated statements of financial position of AIB as at 30 June 2015, 2016 and as at 31 October 2016 are summarised in the table below:

Table 14: AIB Historical Consolidated Statements of Financial Position

(A\$'000)	As at 30 June		As at 31 Oct 2016 (Management Accounts)
	2015 (Audited)	2016 (Audited)	
Assets			
Cash and Cash Equivalents	4,301	4,714	2,728
Dividend Receivable	-	7	1
Receivables	10	15	8
Due from Brokers - Receipts for Securities Sold	399	0	-
Financial Assets Held at Fair Value through Profit or Loss	2,288	2,144	3,116
Total Assets	6,998	6,880	5,852
Liabilities			
Bank Overdrafts	(373)	(1,025)	(699)
Distributions Payable	(150)	(110)	(1)
Due to Brokers - Payable for Securities	(430)	-	(275)
Financial Liabilities Held at Fair Value through Profit or Loss	(66)	(666)	(602)
Other Payables	(7)	(82)	(159)
Total Liabilities (excluding net assets attributable to unitholders)	(1,027)	(1,882)	(1,737)
Net Assets Attributable to Unitholders	5,971	4,997	4,116
Liabilities Attributable to Unitholders	(5,971)	(4,997)	(4,116)
Net Assets	-	-	-

Source : Aurora Global Income Trust annual reports for the year ended 30 June 2015 and 2016; Aurora Global Income Trust management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis



6. Profile of Aurora Funds Management Limited

6.1. Background

Aurora, established in 2003, is a boutique funds manager specialising in Australian and global listed securities and derivatives. Aurora is the responsible entity for both HHY and AIB. Aurora holds an Australia Financial Services Licence ("AFSL") 222110 effective date 1 July 2015.

Aurora is the responsible entity and/or manager of the following funds:

- HHY Fund (ASX:HHY) (responsible entity only);
- Aurora Global Income Trust (ASX:AIB) (responsible entity and investment manager);
- Aurora Absolute Return Fund (ASX:ABW) ("ABW") (responsible entity and investment manager);
- Aurora Dividend Income Trust (ASX:AOD) ("AOD") (responsible entity and investment manager);
- Aurora Property Buy-Write Income Trust (ASX:AUP) ("AUP") (responsible entity and investment manager); and
- Aurora Fortitude Absolute Return Fund (ASX:n/a) ("AFARF") (responsible entity and investment manager);

collectively (the "Aurora Funds")

On 19 December 2014, SIV Asset Management Limited (formerly known as Aurora Funds Limited), the parent company of Aurora, entered into a binding term sheet for Keybridge to acquire the funds management business and on 27 March 2015 the transaction was completed.

On 27 June 2016, Keybridge entered into a binding agreement for Seventh Orion as trustee for the Aurora Investments Unit Trust to acquire Aurora. On 30 June 2016, Keybridge completed the sale of 100% of the share capital of Aurora to Seventh Orion.

Aurora was appointed as the responsible entity for HHY on 30 June 2015, following the approval by vote of the unitholders during the general meeting held on 29 June 2015. The appointment of Aurora as the responsible entity followed the impending wind up of HHY at the time.

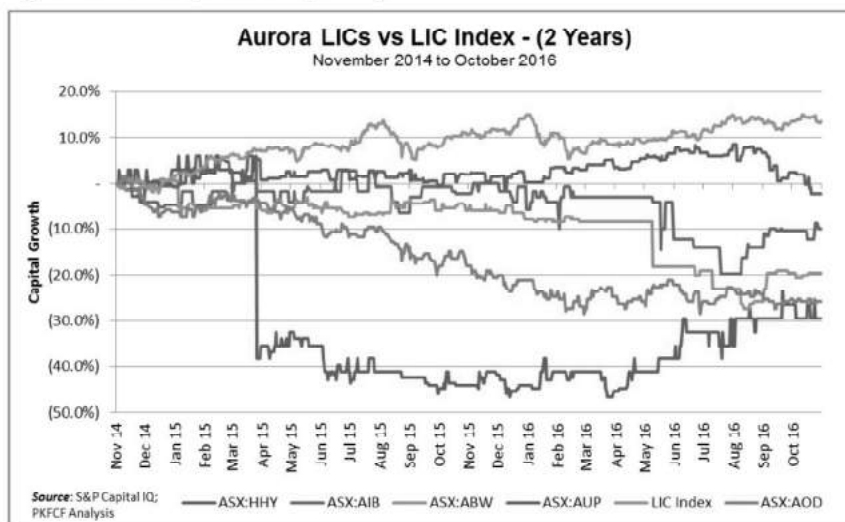


6.2. Historical Performance

Aurora Funds focus on delivering income to their investors whilst reducing the risk of invested capital. Aurora Funds use derivative investments such as options, futures contracts and short selling to diversity risk and reduce market exposure of FUM.

Set out below is a summary of daily growth in the unit prices of Aurora Funds in comparison to ASX LICs in aggregate ("LIC Index") over the period 1 November 2014 to 31 October 2016:

Figure 5: ASX LIC Capital Growth (2 Years)



In relation to the above, we note the following:

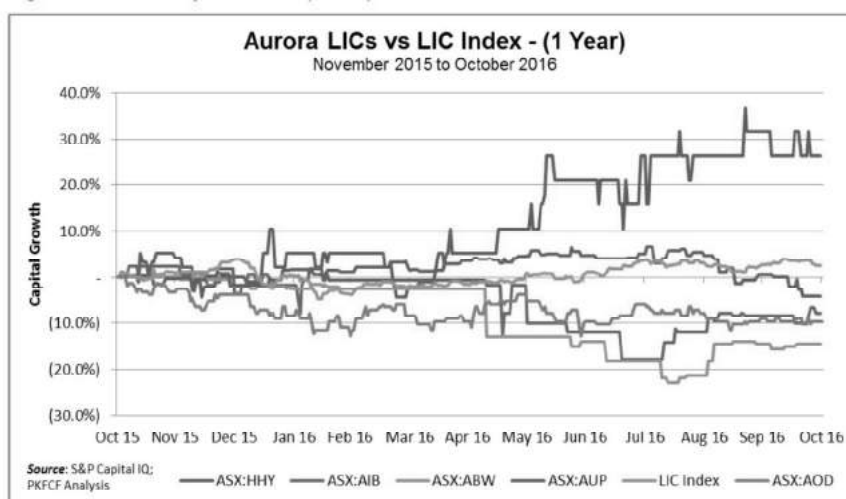
- analysis has been performed between the LIC Index and unit prices of the individual Aurora Funds as depicted above. For the purpose of this comparison the LIC Index has been constructed in aggregate being the combined market capitalisation of all ASX LICs;
- this analysis compares capital growth only and does not include any income yield associated with applicable distributions;
- in the two year period to 31 October 2016 the LIC Index rose 13.7% to \$29.6 billion, with a compound annual growth rate of 6.6%;
- HHY's unit price fell 16.0% on an annual basis to \$0.12 per unit for the two year period to 31 October 2016. We note prior to Aurora's appointment as responsible entity there was a sell off of the GBP 8.1 million Junior Floating Rate Note of Cory Environmental investment at five pence in the UK pound causing a 41.7% fall in unit price from \$0.18 to \$0.105 per unit on 27 March 2016;
- AIB's unit price fell 9.8% from \$0.865 to \$0.780 per unit from 1 November 2014 to 31 October 2016 or 5.0% on an annualised basis. We note that during this period, AIB paid distributions totalling \$0.1473 per unit, representing a 17.03% yield over the two year period (based on the 1 November 2014 unit price);
- ABW's unit price decreased 10.3% on an annualised basis from \$1.025 per unit on 1 November 2014 to \$0.825 on 31 October 2016. We note that during this period, ABW paid distributions totalling \$0.1401 per unit, representing a 13.67% yield over the two year period (based on the 1 November 2014 unit price);



- AUP's overall growth for the two year period ended 31 October 2016 remained relatively flat at negative 1.1% on an annualised basis to \$5.22 per unit. We note that during this period, AUP paid distributions totalling \$0.8827 per unit, representing a 16.53% yield over the two year period (based on the 1 November 2014 unit price);
- AOD's unit price decreased 25.8% to \$0.705 during the two year period starting 1 November 2016 through to 31 October 2016, falling 13.9% on a compound annualised basis. We note that during this period, AOD paid distributions totalling \$0.1334 per unit, representing a 14.04% yield over the two year period (based on the 1 November 2014 unit price); and
- AFARF is an unlisted managed fund. As such no comparison has been made to the LIC Index due to unavailability of data.

Set out below is a summary of daily growth in the unit prices of Aurora Funds in comparison to the LIC Index from starting point 1 November 2015 to 31 October 2016:

Figure 6: ASX LIC Capital Growth (1 Year)



In relation to the above, we note the following:

- analysis has been performed between the LIC Index and unit prices of the individual Aurora Funds as depicted above. For the purpose of this comparison the LIC Index has been constructed in aggregate being the combined market capitalisation of all ASX LICs;
- this analysis compares capital growth only and does not include any income yield associated with applicable distributions;
- in the one year period to 31 October 2016 the LIC Index rose 2.7% to \$29.6 billion from \$28.8 billion;
- HHY's unit price increased 26.3% on an annual basis to \$0.12 per unit for the one year period to 31 October 2016. We note following Aurora's appointment as responsible entity on 30 June 2015, unit price has increased from \$0.10 to \$0.12 or 20% in total;
- AIB's unit price fell 7.7% from \$0.845 to \$0.78 per unit from 1 November 2015 to 31 October 2016 or 5.0% on an annualised basis. We note that during this period, AIB paid distributions totalling \$0.0661 per unit, representing a 7.82% yield over the one year period (based on the 1 November 2015 unit price);



- ABW's unit price decreased 14.5% on an annualised basis from \$0.965 per unit on 1 November 2015 to \$0.825 on 31 October 2016. We note that during this period, ABW paid distributions totalling \$0.0556 per unit, representing a 5.76% yield over the one year period (based on the 1 November 2015 unit price);
- AUP's growth for the one year period ended 31 October 2016 came to negative 4.0% on an annual basis to \$5.22 per unit. We note that during this period, AUP paid distributions totalling \$0.4431 per unit, representing a 8.15% yield over the one year period (based on the 1 November 2015 unit price);
- AOD's change in unit price for the year ended 31 October 2016 improved comparatively to the year prior falling 9.6% to \$0.705 from \$0.78 compared to 13.9% on an annualised basis for the two year period. We note that during this period, AOD paid distributions totalling \$0.0608 per unit, representing a 7.79% yield over the one year period (based on the 1 November 2015 unit price); and
- AFARF is an unlisted managed fund. As such no comparison has been made to the LIC Index due to unavailability of data.

Set out below is some further commentary regarding the performance of Aurora Funds managed by Aurora (i.e. excluding HHY which is managed by Keybridge):

Aurora Global Income Trust (ASX:AIB)

Set out below is a summary of AIB's performance compared to the Reserve Bank of Australia's Cash Rate ("Cash Rate") on a period by period basis to 31 October 2016:

Table 15: AIB Performance – 31 October 2016

	1 month	3 months	12 months	3 years (p.a)	Since Inception (p.a)
Investment Strategy - Composite	1.81%	-4.84%	-1.84%	2.90%	3.94%
Cash Rate (Benchmark)	0.13%	0.38%	1.83%	2.19%	3.41%

Source: Aurora Funds Management Limited management

In relation to the above, we note the following:

- AIB outperformed the Cash Rate growing 1.81% in the month of October 2016 compared to 0.13%. This compares with AIB declining 1.84% for the year being worse than the Cash Rate lifting 1.83%;
- in the long term, AIB has outperformed the Cash Rate achieving annualised growth of 2.90% over the three years to October 2016 and 3.94% per annum since inception being the 1 July 2008. This respectively compares with 2.19% and 3.41% for the Cash Rate.
- whilst AIB has achieved growth rates above its industry benchmark the returns are considered low given the risk free nature of the Cash Rate.



Aurora Absolute Return Fund (ASX:ABW)

Set out below is a summary of ABW's performance compared to the Cash Rate and the S&P/ASX200 Accumulation Index ("S&P/ASX200AI") on a period by period basis to 31 August 2016:

Table 16: ABW Performance – 31 August 2016

	1 month	3 months	6 months	12 months	3 years (p.a)	Since Inception (p.a)
ABW	-0.72%	9.90%	-9.03%	8.70%	-0.67%	2.42%
Cash Rate	0.12%	0.42%	0.90%	1.91%	2.24%	4.07%
S&P/ASX200AI	-1.55%	2.07%	13.91%	9.30%	6.58%	5.37%

Source: Aurora Funds Management Limited management

In relation to the above, we note the following:

- performance represents a cumulative return and assumes reinvestment of distributions;
- ABW has consistently underperformed compared to its associated benchmarks particularly in the six months to 31 August 2016 with negative 9.03% growth compared to 0.90% and 13.91% rise for the Cash Rate and S&P/ASX200AI respectively;
- on an annualised basis for the three years to 31 August 2016 growth was relatively flat with ABW declining 0.67%. This compares with the Cash Rate and S&P/ASX200AI annualised growth of 2.24% and 6.58% for the same period; and
- since inception ABW has achieved positive growth of 2.42% compared to 4.07% for the Cash Rate and 5.37% for the S&P/ASX200AI. Given the risk associated with investing in ABW this return is considered low compared to the market and industry benchmarks.

Aurora Dividend Income Trust (ASX:AOD)

Set out below is a summary of AOD's performance compared to a chosen industry benchmark on a period by period basis to 31 October 2016:

Table 17: AOD Performance – 31 October 2016

	1 month	3 months	12 months	3 years (p.a)	Since Inception (p.a)
AOD	-1.6%	-3.5%	-1.6%	-4.5%	4.8%
Benchmark	-1.0%	-1.4%	5.1%	4.1%	6.1%

Source: Aurora Funds Management Limited management

In relation to the above, we note the following:

- the benchmark is calculated as 50% of the return of the S&P/ASX200AI adjusted to include franking credits plus 50% of the return on the UBS Australia Bank Bill Index. The weights being the same target weights of AOD;
- AOD fell 1.6% in October 2016 where the defensive sectors underperformed and resources outperformed. Whilst major shocks were avoided, the lack of resource exposure and high weight to defensives, resulted in a decline in unit price;
- for the year to 31 October 2016 AOD fell 1.6% compared to 5.1% growth in the benchmark; and
- since inception, 16 November 2005, AOD has achieved a slightly lower per annum growth of 4.8% compared with 6.1% of the industry benchmark.



Aurora Property Buy-Write Income Trust (ASX:AUP)

Set out below is a summary of AUP's performance compared to the S&P/ASX200 Property Accumulation Index ("Listed Property Index") on a period by period basis to 30 September 2016:

Table 18: AUP Performance – 30 September 2016

	1 month	3 months	6 months	12 months	3 years (p.a)	5 years (p.a)	Since Inception (p.a)
AUP	-2.37%	-2.21%	1.44%	9.05%	8.95%	10.64%	3.04%
Listed Property Index	-4.33%	-1.95%	7.12%	20.80%	17.69%	19.57%	0.76%

Source: Aurora Funds Management Limited management

In relation to the above, we note the following:

- Listed Property Index was sold off heavily finishing down 4.33% for the month of September 2016 whilst AUP fell 2.37%. Despite exposure to defensive stocks to cushion the fall, September 2016 was in general a difficult period for property investors with declines seen across the board;
- AUP has underperformed the Listed Property Index for the majority of the above periods despite achieving growth since inception, with the exception of the three months to 30 September 2016 as mentioned above. On an annualised basis AUP grew by 8.95% for the three years and 10.64% for the five years to 30 September 2016 compared with Listed Property Index achieving growth of 17.69% and 19.57% respectively;
- AUP standard deviation of 9.80% is lower than the 19.16% standard deviation of the Listed Property Index indicating investors in AUP have experienced less volatility in investment returns throughout the life of AUP; and
- in the long run, since inception, AUP has beaten the industry benchmark growing by 3.04% on an annual basis compared with 0.76% for the Listed Property Index.

Aurora Fortitude Absolute Return Fund

Set out below is a summary of AFARF's performance compared to the Cash Rate on a period by period basis to 31 October 2016:

Table 19: AFARF Performance – 31 October 2016

	1 month	3 months	6 months	12 months	3 years (p.a)	5 years (p.a)	Since Inception (p.a)
AFARF	1.10%	0.40%	-8.34%	-8.12%	-0.69%	1.84%	5.81%
Cash Rate	0.12%	0.38%	0.82%	1.83%	2.19%	2.67%	4.21%

Source: Aurora Funds Management Limited management

In relation to the above, we note the following:

- AFARF returned 1.10% in the month of October 2016, outperforming the Cash Rate at 0.12%;
- the three months to 31 October 2016 saw AFARF achieve marginal gains of 0.40% following significant loss in the prior periods shrinking 8.12% on a yearly basis to the same date. This compares with the Cash Rate which edged up 1.83% for the year ended 31 October 2016;



- AFARF standard deviation is significantly higher than the Cash Rate at 3.81% compared to 0.48% respectively which is to be expected given the risk free nature of the chosen benchmark; and
- since inception, March 2005, AFARF beat the Cash Rate on an annualised basis increasing 5.81% through to 31 October 2016 compared to 4.21% for the Cash Rate. Given the risk profile of the fund a higher return is to be expected.

6.3. Directors and Other Key Personnel

As at the date of this Report HHY has no employees and is wholly managed by the responsible entity, Aurora. The Directors and other key personnel of Aurora are as follows:

Table 20: Directors of Aurora

Director	Background
James Gerard Hallam Non-Executive Director	<p>James Gerard Hallam was appointed as Non-Executive Director of Aurora on 30 June 2016.</p> <p>Mr Hallam has over 20 years' finance and operational experience in Australian funds and investment management experience. Previously he has worked as CFO at Hastings Funds Management from 1997 to 2006. His experience spans a diverse range of businesses including transport, utilities, telecommunications, ports and stadiums.</p> <p>Mr Hallam does not hold any units in HHY.</p>
John Dean Patton Managing Director	<p>John Dean Patton was appointed Executive and Managing Director of Aurora on 30 June 2016.</p> <p>Mr Patton was previously a partner with Ernst & Young in Transactions Advisory Services and has over 25 years of professional services and industry experience. John has extensive corporate finance experience having been involved in over 250 corporate transactions, including mergers and acquisitions, structuring, debt & equity raisings, IPO's, management buy-outs, valuations, due diligence, financial modelling, restructuring and corporate advisory.</p> <p>Mr Patton was appointed Non-Executive Director Keybridge on 10 August 2015 and is also a Director of Metgasco Limited.</p> <p>Mr Patton does not hold any units in HHY.</p>
Betty Poon Executive Director	<p>Betty Poon was appointed Executive Director of Aurora on 7 September 2015.</p> <p>Originally Ms Poon joined Aurora as CFO in April 2013 and subsequently appointed Company Secretary on 31 January 2014. Ms Poon has over 20 years' experience in financial management, with over 15 years of those in financial services. Prior to joining Aurora, Ms Poon held a number of senior finance roles at ANZ Banking Group, JP Morgan, Aviva Investors and Pitcher Partners.</p> <p>Ms Poon does not hold any units in HHY.</p>
Victor Siciliano Investment Manager	<p>Victor Siciliano joined Aurora as a Portfolio Manager in July 2016.</p> <p>Mr Siciliano has significant investment experience, most recently as Portfolio Manager of the HHY fund at Keybridge. Prior to this, Mr Siciliano worked as an investment analyst and assistant portfolio manager at a boutique fund manager Sterling Equity, as well as an investment advisor at Macquarie Group.</p>

Source: Aurora Funds Management Limited management



7. Industry Overview

7.1. Listed Investment Companies & Trusts

7.1.1. Overview

A subcategory of the investment management industry, listed investment companies ("LIC") and listed investment trusts ("LIT") enable investors to invest in a diverse and professionally managed portfolio of assets which can include shares, property and interest bearing deposits.

LICs are classified into four broad categories, depending upon the primary assets in which they invest:

- Australian Shares - investing principally in shares listed on the ASX;
- International Shares - investing principally in shares listed on international stock exchanges;
- Private equity - investing in Australian or international unlisted private companies;
- Absolute return funds - aim to deliver returns in both rising and falling markets through investing in a wide range of asset classes and employing various investment strategies; and
- Specialist - investing in special assets or investment sectors such as wineries, technology companies, resources, and telecommunications.

LICs in Australia primarily invest in Australian or international shares and offer investors exposure to the same universe of assets that can be accessed through many unlisted managed funds. Within the Australian sphere, there are approximately 89 LICs listed on the ASX which had a total market capitalisation of approximately \$29.6 billion as at 30 September 2016.

7.1.2. Largest ASX-listed LICs

The following figure sets out the five (5) largest ASX listed LICs (by market capitalisation as at 30 September 2016):

Figure 7: Largest ASX-listed LICs

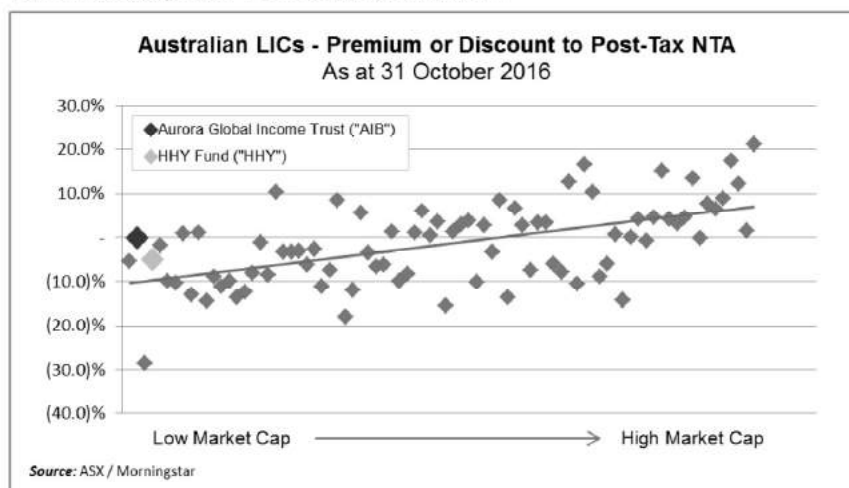




7.1.3. Industry Premium and Discount to NTA

Set out below is a summary of Australian listed investment companies premium or discount to post tax NTA:

Table 21: Australian LICs – Premium or Discount to NTA



In relation to the above we note the following:

- on average Australian LICs were trading at a 0.251% premium to post tax NTA as at 31 October 2016. On a weighted average basis (based on market capitalisation) Australian LICs are trading at a 8.64% with a clear trend showing that LICs with larger market capitalisations typically trade at a higher premiums (or lower discount) than their low market capitalisation counterparts as shown above in **Table 21**;
- significant outliers have been excluded from this analysis of Australian LICs premium or discount to post-tax NTA;
- factors that may influence a LIC to trade at a discount to NTA include:
 - poor investment portfolio performance, or for newly established LICs, no trading history;
 - lack of fully franked dividends, a poor track record of paying them or a perceived inability to pay fully franked dividends in the future; and
 - ineffective marketing and communications to raise the profile of the LIC amongst prospective investors or building loyalty with existing shareholders.
- factors that may influence a LIC to trade at a premium to NTA include:
 - presence of an experienced management team. Investors value companies with long term experience trading through various market cycles;
 - strong investment portfolio performance and consistent track record;
 - history of paying regular fully franked dividends over time; and
 - effective marketing and communications initiatives to raise the profile and reputation of the LIC and its manager, through forms such as, investor presentations, regular market updates and media appearances.



7.2. Funds Management

7.2.1. Introduction

As of 30 June 2016, the Australian managed funds industry had approximately \$2,721.6 billion funds under management ("FUM"), an increase of \$74.9 billion (3%) from the 2016 March quarter of \$2,646.7 billion.

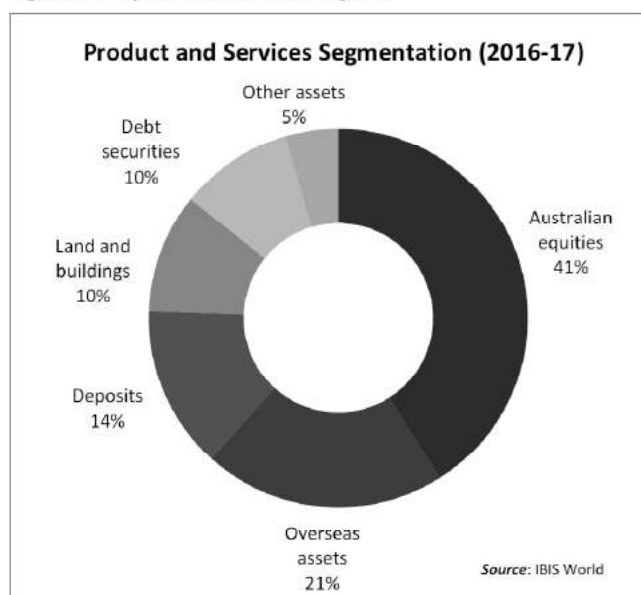
The funds management industry is categorised by moderate levels of concentration whereby the four largest competitors are expected to account for over 60% of total industry revenue in 2017 financial year. Fund managers may offer several products and different levels of service depending on a clients' size and risk profile, including tailored mandate solutions to larger clients.

The industry comprises large institutional fund managers and smaller boutique investment managers, with their size typically defined by the value of FUM held. A large fund manager can have up to \$300.0 billion in FUM, while smaller managers with limited capabilities may manage anywhere between \$300.0 million and \$2.0 billion. Of the total industry FUM, approximately two-thirds are sourced from wholesale investors, such as pension funds and insurance firms, and one-third from retail investors. Boutiques, hedge funds, public offer unit trusts and government funds also make up part of Australia's investment management industry.

Fund managers offer the opportunity to invest in a wide variety of investments with varying investment strategies. These strategies differ depending on the level of risk and return sought by investors, the investment approach adopted and whether the investment is in domestic, regional or global assets.

Set out below is a breakdown of the investment categories to which FUM are directed by the Australian managed fund industry.

Figure 8: Analysis of Investment Categories





7.2.2. Industry Drivers

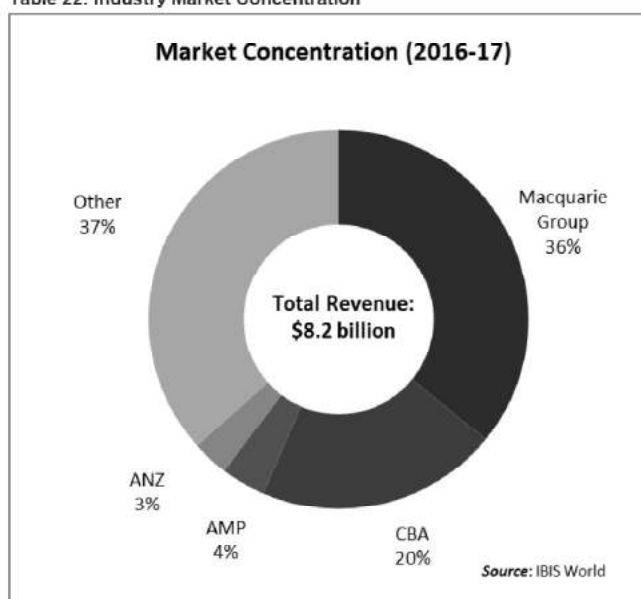
The key drivers of growth in the funds management industry are the nation's universal pension system, a strong insurance sector and a growing high-net-worth and retail investor sector. Stronger returns of the All Ordinaries index, improving MSCI World Index and increasing investor confidence all contribute.

Following the GFC where industry experienced significant consolidation participant firms remain highly competitive and the industry is considered to be in a mature phase. The industry, like many financial services around the world, is becoming increasingly globalised. While the size and growth of the industry in Australia draws overseas fund managers to set up operations in Australia, Australian fund managers are also extending their reach overseas. Industry globalisation is expected to increase further with improvements in telecommunications technology and improving conditions in the financial markets.

7.2.3. Main Industry Players

The following figure sets out the market share (by revenue) of industry participants in the Australian funds management industry:

Table 22: Industry Market Concentration



Macquarie Group is an Australian investment bank servicing corporate and institutional clients. Macquarie offers full-service stockbroking to individuals, including advice, recommendations and access to shares and managed funds. The bank also offers a broad range of investment opportunities to businesses, including infrastructure investment services, managed funds, money market products, property trusts, private equity and venture capital investments. It holds 35.9% market share.

The Commonwealth Bank of Australia participates in the industry through its subsidiaries CFS Global Asset Management and Colonial First State. Both companies form the bank's wealth management division. The bank is the second largest player within Australia, holding 20.6% of the market.



AMP Limited with a market share of 3.8% is a diversified financial services company that operates in the industry through one of its divisions and wholly owned subsidiary, AMP Capital. In addition to managing investments across all major asset classes, AMP Capital provides commercial, industrial and retail property management services.

Australia and New Zealand Banking Group Limited entered funds management as a significant player in November 2009 following the acquisition of ING Australia Limited. As a significant player in the industry the firm operated under various brand names including, RetireInvest, Tandem, Millennium3 and ING Financial. Following significant consolidation and re-structure ANZ's funds management activities are now organised under the ANZ-controlled entity ANZ Wealth Australia Limited, formerly OnePath Australia Limited and OnePath Holdings (NZ) Limited accounting for 3.1% of industry revenue.

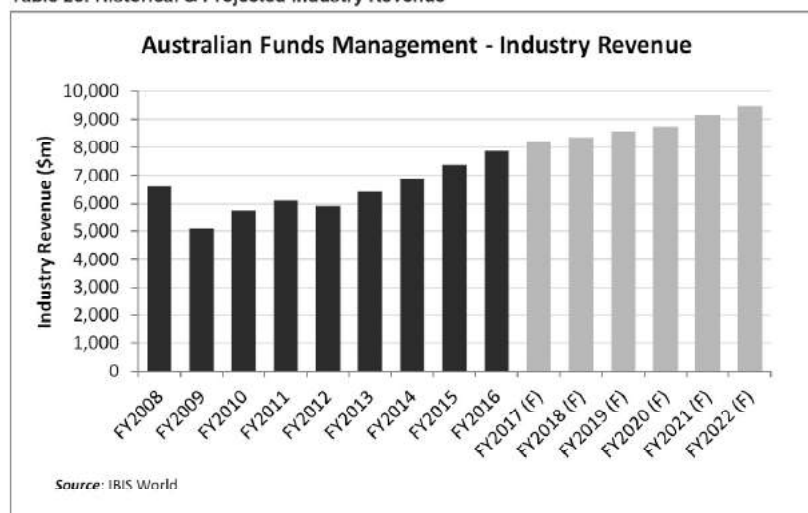
7.2.4. Industry Performance

During the period 2007 to 2009, FUM significantly declined as stock markets around the world plunged by approximately 40% during the GFC in 2008, compounded by investors redeeming their funds, spooked by the impact of the GFC. Since management fees are substantially calculated based on the value of FUM, industry revenue also declined. During the period of negative investments returns, some fund managers continued to earn performance fees while producing negative returns, so long as they performed above performance benchmarks.

Although the financial markets have had many false starts, FY2016 has been a strong year for stock market returns. The Australian funds management industry is thriving as experienced domestic managers with proven track records have been able to attract funds both domestically and abroad. Australia's growing number of high net worth individuals has further spurred demand in the industry. Overall, IBISWorld forecasts industry revenue to grow by 4.2% to reach \$8.2 billion in FY2017.

The table below sets out historical and projected industry revenue:

Table 23: Historical & Projected Industry Revenue



7.3. Conclusion

Based on the above, the immediate future prospects of the Australian funds management industry and the LIC industry appear to be sound and it is not expected to be adversely affected in the future.



8. Assessment of the Offer

8.1. Approach

8.1.1. Fair

The Offer will be "fair" if the value of the offer price or consideration offered by AIB to HHY unitholders is equal to or greater than the value of the HHY Units subject of the Offer. We have assessed whether the Offer is "fair" to the HHY Unitholders by comparing:

- the fair market value of a HHY Unit on a controlling interest basis, before the completion of the Offer (i.e. the price that a bidder would have to pay to acquire full control of HHY); with
- the fair market value of the consideration being offered to HHY Unitholders. This consideration will be units in the merged entity ("**Merged Entity**") on a minority interest basis, assuming that the Offer is accepted by 100% of HHY Unitholders.

We note that under the Offer, the consideration is to be calculated based on the respective NTA's of HHY and AIB as at the Closing Date. As the Closing Date (and thus the NTA's of HHY and AIB) are unknown as at the date of this Report, we have undertaken our analysis as if the Closing Date was 31 October 2016.

We note that due to the operation of the formula used to calculate the consideration offer to HHY Unitholders and the form of our "fairness" analysis, the selection of 31 October 2016 (rather than the actual Closing Date) will have no impact on our final conclusion regarding "fairness" of the Offer.

8.1.2. Reasonable

In order to assess whether the Offer is "reasonable", we have considered whether it is "fair" and if it is not, whether we believe that there are sufficient reasons for HHY Unitholders to accept the Offer.

This assessment has largely been undertaken by considering whether in our opinion, the advantages of accepting the Offer sufficiently outweigh the disadvantages for HHY Unitholders as a whole.

8.2. Selection of Valuation Methodology

In selecting an appropriate methodology to estimate the fair market value of the equity interests in HHY, AIB and the Merged Entity, we have considered common market practice and the widely accepted valuation methodologies which are summarised in **Appendix 3**

Our estimate of the fair market value of units in HHY, AIB and the Merged Entity has been assessed using the net asset backing method.

We are of the view that the net asset backing method is the most appropriate to apply in the case of HHY, AIB and the Merged Entity for the following reasons:

- HHY, AIB and the Merged Entity are all listed investment vehicles whose operations solely consist of the making of passive investments in predominately other listed entities;
- HHY, AIB and the Merged Entity do not undertake any business activities and do not possess any goodwill. Accordingly, an earnings-based valuation methodology is not appropriate; and
- whilst the units of HHY, AIB and the Merged Entity are/will be listed on the ASX and may be traded on that market, they have typically traded at a discount to their net asset backing. Given the nature of the assets of HHY, AIB and the Merged Entity, in our view, adopting a net asset backing methodology is more appropriate than relying on the trading prices on the entities' units.



8.3. Valuation of HHY

8.3.1. Net Assets of HHY

Set out below is the balance sheet of HHY as at 31 October 2016:

Table 24: Balance Sheet of HHY as at 31 October 2016

(A\$'000)	Note	As at 31 Oct 2016 (Management Accounts)
Assets		
Cash and Cash Equivalents		2,358
Receivables	1	448
Financial Assets Held at Fair Value through Profit or Loss	2	9,138
Total Assets		11,944
Liabilities		
Due to Brokers - Payable for Securities		(72)
Financial Liabilities Held at Fair Value through Profit or Loss	2	(323)
Total Liabilities (excluding net assets attributable to unitholders)		(395)
Net Assets Attributable to Unitholders		11,549
Liabilities Attributable to Unitholders		(11,549)
Net Assets		-

Source: HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

In relation to the above, we make the following observations:

Note 1: Receivables

Included in the receivables balance as at 31 October 2016 is a loan to Monark Residential Capital Pty Limited ("Monark"). The form of the loan is such that Monark acts as an aggregator and manager of a number of funding participants (including HHY) who provide loan funds to Monark which are then on-lent to a borrower. Set out below are some key points relating to this loan:

- as at 31 October 2016, the principal outstanding on the loan is \$400,000 with an additional \$17,419 in accrued interest outstanding;
- the loan attracts interest at a rate of 10% per annum, calculated daily;
- there are no fixed regular repayment terms for the repayment of the loan to HHY;
- the loan is fully repayable no later than 15 April 2017; and
- there is not facility or secondary market in which HHY can readily realise this loan.

Having regard to the above, we have not made any adjustment to the carrying value of the loan to Monark. We note however that should it transpire that these assets are not fully recoverable, it would be in favour of HHY Unitholders in the context of HHY Unitholders accepting the Offer on the basis that they would receive 100% of net asset value under the Offer.


Note 2: Financial Assets & Liabilities Held at Fair Market Value

As at 31 October 2016, financial assets and liabilities, which have been stated at fair market value consisted of the following:

Table 25: Financial Assets & Liabilities of HHY as at 31 October 2016

(A\$'000)	As at 31 Oct 2016 (Management Accounts)
Australian Listed Equity Securities	7,957
International Listed Equity Securities	469
Unlisted Convertible Notes	712
Total Financial Assets	9,138
Australian Listed Equity Securities Sold Short	(323)
Total Financial Liabilities	(323)
Net Financial Assets	8,815

Source: HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

We note the following substantial investments in listed companies, including information on the liquidity of securities of the listed companies:

Table 26: Substantial Financial Assets of HHY as at 31 October 2016

Company	ASX Code	As at 31 October 2016				
		Fair Market Value (\$'000)	Number of Shares Held	% of Total Shares on Issue	12 Month Liquidity	
					Number of Shares	As a % of Total Shares on Issue
Copper Strike Ltd.	CSE	2,268	7,434,992	7.0%	45,498,860	42.6%
Metgasco Limited	MEL	1,221	19,085,580	4.8%	304,309,420	73.2%
NAOS Absolute Opportunities Company Limited	NAC	3,050	2,652,439	7.3%	25,569,080	97.6%
Total		6,539				
As a % of Net Financial Assets		74.2%				
As a % of Net Assets		56.6%				

Source: HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

In relation to the above, we make the following observations:

- together, the three substantial financial assets listed above represent 74.2% of the total net financial assets held by HHY as at 31 October 2016, and 56.6% of the total net assets of HHY as at 31 October 2016;
- each of the holdings represent substantial equity positions in listed companies, ranging between 4.8% and 7.3% in the total issued shares of each of the companies;
- trading in the shares of each of the companies listed above is reasonable liquid, ranging between 42.6% and 97.6% in the last 12 months.



Further to the above noted substantial investments, we set out below additional information in relation to unlisted convertible notes held by HHY as at 31 October 2016:

Table 27: Summary of Unlisted Convertible Note Investments

	Investment 1	Investment 2	¹ Investment 3
Issuer	JustKapital Litigation Partners Limited (ASX:JKL)	BPS Technology Limited (ASX:BPS)	Not Disclosed (Australian Private Company)
Fair Value of Investment as at 31 October 2016	\$301,420	\$152,494	\$258,333
Interest Rate	11.5% pa	1st Year – 12.0% pa 2nd Year – 14.0% pa	1st Year – 10.0% pa 2nd Year – 12.5% pa 3rd Year – 15.0% pa
Redemption Status	Redeemable on 16 July 2018 for cash or ordinary shares in the company at the option of HHY	Redeemable in December 2017. Company has option to redeem any time up to 12 months prior to the redemption date	Redeemable at any time, but no later than June 2019 at the option of the company. Redeemable for cash or shares in the company at the option of HHY
Conversion Status	May be converted at any time into ordinary shares in the company at the option of HHY at an issue price of \$0.30 per ordinary share	May be converted at any time into ordinary shares in the company at the option of HHY at an issue price of \$1.175 per ordinary share	On a listing event: Convertible into ordinary shares at a 25% discount to the listing price In a trade sale: Convertible into ordinary shares at a 25% discount to the implied sale price Upon redemption where HHY elects to convert to shares: Convertible into ordinary shares at a 30% discount to an implied pre-conversion company value of \$30m

¹ Not disclosed for confidential reasons.

In relation to the above we note the following:

- as at the date of this Report, shares of JustKapital Litigation Partners Limited are trading at less than \$0.30 per share (i.e. the conversion price). Nevertheless, we have been advised by management of HHY that full recovery of this investment (including interest applicable) is still expected;
- as at the date of this Report, shares of BPS Technology Limited are trading at less than \$1.175 per share (i.e. the conversion price). Nevertheless, we have been advised by management of HHY that full recovery of this investment (including interest applicable) is still expected; and
- in relation to Investment 3, we have been advised by management of HHY that full recovery of this investment (including interest applicable) is still expected.

Based on the above, we have not made any adjustments to the value of the listed securities. We note however that should it transpire that these assets are not fully recoverable, it would be in favour of HHY Unitholders in the context of HHY Unitholders accepting the Offer on the basis that they would receive 100% of net asset value under the Offer.



8.3.2. Fair market value of a HHY Unit on a control basis

Based on the above, we have assessed the fair market value of each HHY Unit on a control basis to be \$0.1234, calculated as follows:

Table 28: Fair Market Value of Each HHY Unit

	Note / Report Reference	As at 31 Oct 2016
<i>As at 31 October 2016:</i>		
Net Assets of HHY (\$'000)	8.3.1	11,549
Less: Allowance for Break Costs (\$'000)	Note 1	(260)
Fair Market Value of HHY (\$'000)		11,289
Number of Units on Issue	4.4.1	91,466,389
Fair Market Value of Each HHY Unit		0.1234

Source: HHY Fund management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

Note 1: Allowance for Break Costs

In assessing the fair market value of HHY, we have considered the actions of a likely acquirer of HHY. In our opinion, a likely acquirer of HHY would likely seek to terminate the current management agreement with Keybridge. In this scenario a termination fee or damages would likely be payable to Keybridge.

As set out in **Section 4.2.2** of this Report, in the case of a "review event", Keybridge would be entitled to a termination fee equal to the sum of all fees paid to Keybridge over the three years immediately prior to the termination. In this regard, we note the following:

- the termination of the management agreement under a takeover scenario does not fall within the definition of a "review event" under the management agreement. In addition, the management agreement does not appear to deal with a termination scenario outside of a "review event". Accordingly, there is some uncertainty regarding the termination fee or damages that would be payable to Keybridge in this scenario; and
- Keybridge was only appointed as investment manager of HHY on 1 July 2016.

Given the above uncertainties, we have assumed a break costs equal to three (3) times the annual management fees (i.e. 0.75% of net assets per annum) which would be payable to Keybridge based on the net assets of HHY as at 31 October 2016. In addition, we note that given the uncertainty regarding future performance, we have not taken into account any lost performance fees which may be payable to Keybridge in the future. On this basis, our estimate of break costs may be under or over stated however, in the absence of any additional information, we believe that this is the best estimate available as at the date of this Report.

Premium for Control

No additional premium for control has been taken into consideration for the purposes of arriving at our valuation of HHY on the basis that it is our view that the NTA of HHY already takes into account control.



8.4. Valuation of AIB

8.4.1. Net Assets of AIB

Set out below is the actual balance sheet of AIB as at 31 October 2016:

Table 29: Balance Sheet of AIB as at 31 October 2016:

(A\$'000)	Note	As at 31 Oct 2016 (Management Accounts)
Assets		
Cash and Cash Equivalents		2,728
Dividends Receivables		1
Receivables		8
Financial Assets Held at Fair Value through Profit or Loss	1	3,116
Total Assets		5,852
Liabilities		
Bank Overdrafts		(699)
Distributions Payable		(1)
Due to Brokers - Payables for Securities		(275)
Financial Liabilities Held at Fair Value through Profit or Loss	1	(602)
Other Payables		(159)
Total Liabilities (excluding net assets attributable to unitholders)		(1,737)
Net Assets Attributable to Unitholders		4,116
Liabilities Attributable to Unitholders		(4,116)
Net Assets		-

Source: Aurora Global Income Trust management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis



In relation to the above, we make the following observations:

Note 1: Financial Assets & Liabilities Held at Fair Value

As at 31 October 2016, financial assets and liabilities consisted of the following:

Table 30: Financial Assets & Liabilities of AIB as at 31 October 2016

(A\$'000)	As at 31 Oct 2016 (Management Accounts)
Australian Listed Equity Securities	1,820
International Listed Equity Securities	786
Other Unlisted Investments	509
Total Financial Assets	3,116
Australian Listed Equity Securities Sold Short	(382)
International Listed Equity Securities Sold Short	(220)
Total Financial Liabilities	(602)
Net Financial Assets	2,513

Source: Aurora Global Income Trust management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

For the purposes of our Report no adjustment is required to the fair market value of the above investments.

8.4.2. Fair market value of an AIB Unit

Based on the above, we have assessed the fair market value of an AIB Unit to be \$0.7500, calculated as follows:

Table 31: Fair Market Value of Each AIB Unit

	Note / Report Reference	As at 31 Oct 2016
<i>As at 31 October 2016:</i>		
Net Assets of AIB (\$'000)	8.4.1	4,116
Less: Allowance for Capitalised Management Fees (\$'000)	Note 1	(165)
Fair Market Value of AIB (\$'000)		3,951
Number of Units on Issue		5,268,278
Fair Market Value of Each AIB Unit		0.7500

Source: Aurora Global Income Trust management accounts for the four (4) months ended 31 October 2016; PKFCF Analysis

Note 1: Allowance for Capitalised Management Fees

As set out in **Section 5.2** of this Report, the management fees payable by AIB to the investment manager are calculated as 1.3325% of AIB's net asset value per annum. No performance fees are payable.



In assessing the fair market value of AIB, we have deducted the capitalised value of future management fees that would be payable by AIB to the investment manager (i.e. Aurora), being three (3) times the annual management fees which would be payable to Aurora based on the net assets of AIB as at 31 October 2016. Given the uncertainty regarding future performance, we have not taken into account any potential growth or decline in the net assets of AIB. On this basis, our estimate of management fees may be under or over stated however, in the absence of any additional information, we believe that this is the best estimate available as at the date of this Report.

Premium for Control

No additional premium for control has been taken into consideration for the purposes of arriving at our valuation of AIB on the basis that it is our view that the NTA of AIB already takes into account control.

8.5. Valuation of the Merged Entity

8.5.1. Fair value of the Merged Entity

We have assessed the fair market value of the Merged Entity by aggregating the net assets of HHY and AIB as at 31 October 2016 and have deducted an allowance for capitalised management fees. Given the nature of the assets and liabilities of both HHY and AIB, we do not consider any additional adjustments are required.

We have selected the net assets of HHY as the basis for assessing the fair market value of the Merged Entity (rather than the fair market value of HHY as determined in **Section 8.3.2**) on the basis that Aurora would absorb and break costs that would be payable to Keybridge upon 100% acceptance of the Offer (refer to **Section 1.2** of this Report).

Based on the above, we have assessed the fair market value of the Merged Entity as follows:

Table 32: Fair Market Value of the Merged Entity

	Note / Report Reference	As at 31 October 2016
<i>As at 31 October 2016:</i>		
Net Assets of HHY (\$'000)	8.3.1	11,549
Net Assets of AIB (\$'000)	8.4.1	4,116
Net Assets of the Merged Entity (\$'000)*		15,665
Less: Allowance for Capitalised Management Fees (\$'000)	Note 1	(626)
Fair Market Value of the Merged Entity (\$'000)		15,039

* Assuming 100% Acceptance of the Takeover Proposal

Source: Management accounts of HHY Fund and Aurora Global Income Trust for the four (4) months ended 31 October 2016; PKFCF Analysis

Note 1: Allowance for Capitalised Management Fees

As set out in **Section 5.2** of this Report, the management fees payable by the Merged Entity to the investment manager are calculated as 1.3325% of the Merged Entity's net asset value per annum. This is based on the current management agreement between AIB and Aurora.

No additional allowance for any break costs associated with the termination of the management agreement between HHY and Keybridge on the basis that management of Aurora have represented to us that Aurora would absorb such break costs in the scenario that AIB acquired 100% of HHY.



8.5.2. Net Assets of the Merged Entity per Merged Entity Unit

Based on the above, we have assessed the fair market value of a Unit in the Merged Entity to be \$0.7500 on a controlling interest basis, or between \$0.6750 to \$0.7125 (on a minority interest basis), calculated as follows:

Table 33: Fair Market Value of each Merged Entity Unit

	Note / Report Reference	Low	Mid-Point	High
Fair Market Value of the Merged Entity	8.5.1	\$15,039	\$15,039	\$15,039
Existing AIB Units	5.4.1	5,268,278	5,268,278	5,268,278
Consideration Units to be Issued*	Note 1	14,784,211	14,784,211	14,784,211
AIB Units on Issue Post Offer*		20,052,489	20,052,489	20,052,489
NTA Per Merged Entity Unit (Control Basis)*		\$0.7500	\$0.7500	\$0.7500
Minority Discount	Note 2	-10.0%	-7.5%	-5.0%
NTA Per Merged Entity Unit (Minority Basis)*		\$0.6750	\$0.6937	\$0.7125

* Assuming 100% Acceptance of the Takeover Proposal

Source: Management accounts of HHY Fund and Aurora Global Income Trust for the four (4) months ended 31 October 2016; PKFCF Analysis

Note 1: Consideration Units to be Issued

As set out in **Section 1.1** of this Report, the Consideration payable to HHY Unitholders under the Offer will consist entirely of units in the Merged Entity. The number of Merged Entity Units to be issued to HHY Unitholders is to be calculated as follows:

$$\text{Number of AIB Units to be Issued} = \frac{\text{NAV of HHY on the Closing Date}}{\text{Number of HHY Units on Issue on the Closing Date}} \div \frac{\text{NAV of AIB on the Closing Date}}{\text{Number of AIB Units on Issue on the Closing Date}} \times \text{Number of HHY Units the HHY Unitholder has elected to accept in the Offer}$$

As the Closing Date (and thus the NAV and number of units on issued at the Closing Date) is unknown as at the date of this Report, we have undertaken our assessment as at 31 October 2016.

Based on the above formula, and an assumed Closing Date of 31 October 2016 and 100% acceptance of the Offer, the number of AIB Units to be issued to HHY Unitholders would be 14,784,211, calculated as follows:

$$\text{Number of AIB Units to be Issued} = \frac{\$11,549,268 \text{ (Section 8.3.1)}}{91,466,389 \text{ (Section 4.4)}} \div \frac{\$4,115,523 \text{ (Section 8.4.1)}}{5,268,278 \text{ (Section 5.4)}} \times 91,466,389 \text{ (Section 4.4)}$$

The above equation equates to 0.1616 AIB Unit for every HHY Unit held.

Note 2: Minority Discount

In order to determine the fair market value of each Merged Entity Unit on a minority interest basis, we need to consider what minority discounts are appropriate to apply in the case of the Merged Entity.



The application of a minority discount reflects the fact that a holder or a minority parcel of securities in an entity will not be able to (on his own) control the entity including in relation to operational and financial matters.

The level of discount will depend on the circumstances. In the case of the Merged Entity, we have considered the following factors in determining an appropriate minority discount to apply:

- as set out in **Sections 4.4.2 and 5.4.2**, both HHY's and AIB's units have traded at a discount to their respective NTA backing.

In the case of HHY, during the period January 2014 to October 2016, HHY's units have traded at an average discount of 18.4% to its NTA backing with the highest discount reaching 41.3% in July 2014 and the highest premium reaching 1.8% in April 2015 which we note was the only month in which HHY's units traded at premium over the period. In 10 months to October 2016, the average discount has reduced to 10.4%.

In the case of AIB, during the period January 2014 to October 2016, AIB's units have traded at an average discount of 1.4% to its NTA backing with the highest discount reaching 9.4% in July 2016 and the highest premium reaching 4.7% in June 2015. In 10 months to October 2016, the average discount has increased to 2.7%.

In our opinion, the trading discounts of HHY's and AIB's units compared to their NTA backing, incorporate in some part, a minority discount noting that trading parcels represent minority parcels of units in HHY and AIB;

- one of the benefits of gaining control of a passive investment vehicle would be the ability to derive fees for acting as responsible manager and investment management of the vehicle.

We note that should the Offer be accepted, the annual responsible manager and investment management fees that will be payable to Aurora by the Merged Entity will be equal to 1.3325% of the net assets of the Merged Entity per annum.

In considering the appropriate minority discount to apply in the case of the Merged Entity, we have considered the present value of potential responsible manager and investment management fees that could be derived from the Merged Entity.

We note that as an alternative to pursuing a takeover of another passive investment vehicle, a fund manager may choose to undertake a capital raising by an existing controlled fund or launch a new fund. In our opinion, a capital raising reflecting the market capitalisation of HHY and AIB would typically cost the fund raiser between 5% and 10% of funds raised; and

- control premiums (being the opposite of a minority discount) have been found to typically range between 20% and 40%. We note however that this range of minority discounts typically apply to entities which have business operations rather than passive investment vehicles. In our opinion, any control premiums (and conversely minority discounts) applicable to passive investment vehicles, would be significantly lower to those applicable to vehicles with typical business operations given the ability of any potential acquirer to replicate the investment portfolio of a potential target entity.

Based on the above, in our opinion, we have determined an appropriate minority discount in the range of 5.0% to 10% to apply in the case of the Merged Entity.



8.6. Fairness of the Proposed Takeover

Based on the analysis set out above, the following table sets out our assessment as to whether or not the Offer is "fair" to the HHY Unitholders. Our assessment been undertaken assuming a Closing Date of 31 October 2016 and 100% acceptance of the Offer by HHY Unitholders:

Table 34: Fairness Assessment

	Note / Report Reference	Low	Mid-Point	High
Fair Market Value of What is Being Given up by HHY Unitholders:				
Assessed Fair Market Value of a HHY Unit (Control Basis) (a)	8.3.2	\$0.1234	\$0.1234	\$0.1234
Fair Market Value of Consideration being offered to HHY Unitholders:				
Assessed Fair Market Value of a Merged Entity Unit (Minority Basis) (b)	8.5.2	\$0.6750	\$0.6937	\$0.7125
Number of AIB Consideration Units to be Issued per HHY Unit under Offer (c)	8.5.2	0.1616	0.1616	0.1616
Fair Market Value of Consideration per HHY Unit ((b)x(c)=(d))		\$0.1091	\$0.1121	\$0.1152
Fairness Assessment:				
Is the Proposed Takeover Fair or Unfair?		Unfair	Unfair	Unfair
By how much? ((d)-(a))		-\$0.0143	-\$0.0113	-\$0.0083
As a % of the Assessed Fair Market Value of a HHY Unit (Control Basis)		-11.6%	-9.2%	-6.7%

Source: PKFCF Analysis

Based on the above, we have determined that the Offer is "not fair" to the HHY Unitholders.



8.7. Reasonableness of the Offer

We have considered the advantages and disadvantages of the Offer and these are set out below. Based on this assessment, we have formed the view that the disadvantages of the Offer to the HHY Unitholders as a whole outweigh the advantages.

8.7.1. Advantages of the Offer

The Offer may otherwise be considered "fair"

As set out in **Section 8** above, in undertaking our fairness assessment we have been required to compare the:

- fair market value of a HHY Unit on a controlling interest basis, before the completion of the Offer (i.e. the price that a bidder would have to pay to acquire full control of HHY); with
- fair market value of the consideration being offered to HHY Unitholders. The consideration will be units in the Merged Entity valued on a minority interest basis, assuming that the Offer is accepted by 100% of HHY Unitholders.

We note that had we undertaken our fairness assessment simply by undertaking a comparison of the respective net assets of HHY and AIB (as contemplated by the formula used to determine the Consideration), our assessment would conclude that the fair market value of the Consideration is equal to the fair market value of HHY Units and that the Offer would be "fair" to HHY Unitholders.

Access to Redemption Facility

By accepting the Offer, HHY Unitholders will gain access to AIB Redemption Facility which is described in detail in **Section 5.4.3** of this Report.

In summary, the Redemption Facility will provide HHY Unitholders with the ability to dispose their unitholding at or close to the NTA backing. HHY does not currently have a similar facility in place.

We note however that there are risks associated with relying on the Redemption Facility to achieve a liquidity event. In particular, we note that there is no guarantee that all redemption requests will be accepted and processed within a short time frame. This could be due to a number of internal and external factors including:

- the inability to fairly calculate asset values (for example, where there is a material market uncertainty); and
- where a large number of redemption requests are received in a particular period. Saying this however, we note that as at 31 October 2016:
 - AIB had cash holdings of approximately \$2.7 million, representing approximately 66% of the net asset value of AIB; and
 - if the Offer is accepted by 100% of HHY Unitholders, the Merged Entity will have cash holdings of approximately \$5.1 million, representing approximately 32% of the net assets of the Merged Entity.

Synergies of Merged Entity

Should the Offer be accepted, HHY Unitholders should benefit from a number of synergies which may include, but may not be limited to the following:

- the increased size of the Merged Entity investment portfolio may provide accepting HHY Unitholders with access to a more diversified investment risk profile;
- reduction in certain administrative and overhead expenses.



Potential Increase in Liquidity of Merged Entity Units

As set out in **Sections 4.4.2** and **5.4.2** of this Report, the liquidity of AIB's securities is significantly higher than that of HHY's securities.

Whilst we have not analysed the specific reasons for this difference in liquidity, the acceptance of the Offer by a significant number of HHY Unitholders will increase the unitholder spread of the Merged Entity, will dilute the voting and equity interests of the major unitholders of both HHY and AIB (i.e. Keybridge and WAM) and this may improve the liquidity of securities that existing HHY Unitholders will hold in the Merged Entity.

Taxation Relief

In the event that AIB acquires 80% or more of the HHY Units, HHY Unitholder may be eligible to apply scrip-for-scrip rollover relief and if eligible, any capital gains that would have been made from the disposal of HHY Units to AIB would be disregarded.

We note however the risks associate with AIB acquiring less than 80% of HHY Units (refer to the disadvantages section below).

HHY Unitholders should refer to section 10 of the Bidder's Statement for a report by Deloitte Tax Services Pty Limited ("**Deloitte**") regarding the Australian taxation implications of the Offer.

HHY Unitholders should read Deloitte's report carefully noting the limitations and restrictions of that report.

8.7.2. Disadvantages of the Offer

Historical Performance of Aurora as a Fund Manager

We have set out in **Section 6.2** of this Report, an overview of the performance of funds under the management of Aurora. This summary analysed the following:

- the performance of the Aurora Funds compared to the LIC index as a whole; and
- the performance of the Aurora Funds compared to the relevant benchmarks set by Aurora itself.

In summary, funds managed by Aurora have not performed as well as the LIC index in general and also when compare to the relevant benchmarks set by Aurora itself. Whilst past performance is not necessarily an indication of future performance and also noting that management of Aurora has changed over the review period set out in **Section 6.2**, HHY Unitholders should take this past underperformance into account.

Nevertheless, it is appropriate to point out that if HHY Unitholders are not satisfied with the performance of Aurora, they will have the ability to sell their units in the Merged Entity either via the Redemption Facility or on market via the ASX.

Uncertain Offer Outcome

As set out in **Section 1.1**, there is no minimum acceptance under the Offer.

In their Bidder's Statement, AIB has indicated that in the case that AIB obtains less than 90% of HHY Units, HHY Unitholders who do not accept the Offer may remain as minority HHY Unitholders and the consequences of this may include:

- HHY becoming unsuitable to continue to be listed on the ASX. If HHY is delisted from the ASX, any remaining HHY Unitholders will remain holding HHY Units which cannot be actively traded;
- If HHY remains listed on the ASX, the liquidity of HHY Units may significantly deteriorate and inhibit the ability of minority HHY Unitholders to realise their holdings at close to NTA value, or realise their holdings at all;



- AIB acquiring additional HHY Units on market under the “creep” provisions of the Corporations Act which permit AIB to acquire up to 3% of HHY Units every six months; and
- AIB will continue to support Keybridge as investment manager of HHY.

Uncertain Tax Consequences

As set out in **Section 1.1**, there is no minimum acceptance under the Offer.

In the case that AIB does not acquire at least 80% of HHY Units, accepting HHY Unitholders will not be eligible to apply scrip-for-scrip rollover relief and will realise a capital gain or loss upon the disposal of their HHY Units to AIB. As a result, accepting HHY Unitholders may be subject to undesirable taxation outcomes.

We also note that WAM holds more than 20% of the issued units in HHY. Without purporting to communicate WAM's intentions regarding their future acceptance or rejection of the Offer, particularly having regard to the results from the Meeting, should WAM not accept the Offer, scrip-for-scrip rollover relief would not be available to any other HHY Unitholders who may choose to accept the Offer.

In our view, there is material uncertainty as to whether or not the required threshold for roll over relief, of 80% acceptance can be achieved.

HHY Unitholders should refer to section 10 of the Bidder's Statement for a report by Deloitte regarding the Australian taxation implications of the Offer, again noting the limitations.

Suitability of Investment Strategy

Should the Offer be accepted, HHY Unitholders will be exposed to AIB's investment strategy which differs to the investment strategy of HHY. Further details regarding the investment strategies of HHY and AIB are set out in **Sections 4.3** and **5.3** respectively.

The investment strategy of AIB may not suite the desired investment strategy and risk profile of all current HHY Unitholders.

8.8. Implications for HHY Unitholders of Rejecting the Offer

As noted in **Section 4.1**, the resolutions put forward by WAM in the Meeting were not passed. Accordingly, Aurora will remain as responsible entity of HHY. However, as evidenced from WAM's past proposals, there is a risk that WAM will not accept the Offer. Moreover, given that there is no minimum acceptance level for the Offer, it is difficult to predict the consequences that may arise to HHY Unitholders if they do not accept the Offer.

In our view, the following foreseeable scenarios may occur in the case that AIB does not obtain at least 90% acceptance for the Offer (and accordingly does not compulsorily acquire remaining HHY Units):

Scenario 1: HHY Remains Listed on the ASX

In the case that HHY remains listed on the ASX upon closing of the Offer, HHY Unitholders who do not accept the Offer will be subject to the following consequences:

- depending on the level of acceptances of the Offer, the liquidity of HHY Units may significantly deteriorate; and
- depending on level of acceptances and consequent impact on liquidity, the value of HHY Units may be subject to significant uncertainty.

Scenario 2: HHY Becomes an Unlisted Trust

As set out in **Section 1.2** of this Report, where AIB does not obtain 100% control of HHY, HHY may become an unlisted trust. Where this occurs, HHY Unitholders who do not accept the Offer will be subject to the following consequences:

- their units in HHY will not be able to be traded on the ASX and may become difficult to realise; and
- the value of HHY Units will be subject to significant uncertainty.



HHY Unitholders who may be looking for certainty that:

- they will remain a unitholder in a listed vehicle;
 - are satisfied with AIB's investment strategy;
 - are satisfied with Aurora as investment manager, and
 - are prepared to accept any adverse tax consequences arising from accepting the Offer;
- they may choose to accept the Offer.

8.8.1. Other Considerations

In addition to the above scenarios, should HHY Unitholders reject the Offer, the following additional implications would be applicable:

- HHY Unitholders will not gain access to the expanded investment portfolio offered by the Merged Entity.

8.9. Overall Conclusion

For the reasons state above, it is our opinion that the Offer is **neither "fair" nor "reasonable"** to the HHY Unitholders.

In assessing reasonableness, we have considered the advantages and disadvantages of the Offer to HHY Unitholders. Overall, whilst the advantages would ordinarily outweigh the disadvantages, the potential capital gains taxation liability that may arise for HHY Unitholders by accepting the Offer have led us to concluded that the Offer as "not reasonable".

In the event that at least 80% of HHY Unitholders accepted the Offer, there would be no potential taxation liability arising the HHY Unitholders. Accordingly, in that circumstance, we would conclude that the Offer is "reasonable".



9. Qualifications, Independence and Disclaimer

9.1. Qualifications

PKFCF is the licensed corporate advisory arm of PKF. PKFCF provides advice in relation to all aspects of valuations and its personnel have extensive experience in the valuation of corporate entities.

Mr Vince Fayad B.Bus, CA, is a Director of PKFCF. Mr Fayad has been actively involved in the preparation of this Report.

Mr Fayad has over 30 years' experience in a number of specialist corporate advisory activities including company valuations, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, advising on independence expert reports, preparation of information memoranda and other corporate investigations.

Mr Andrew Jones B.EC, CA, is a Director of PKFCF. Mr Jones has reviewed this Report.

Mr Jones has over 25 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, due diligence reviews, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions.

Mr Nick Navarra B.Bus, CA is a Principal of PKFCF. Mr Navarra was actively involved in the preparation of this Report.

Mr Navarra has over 15 years' experience in accounting, audit and corporate advisory activities including business, company and intangible asset valuations, the preparation of independent expert's reports, due diligence reviews, litigation support activities, capital raisings and the provision of advice in relation to merger, acquisition and divestment transactions.

Based on their experience, Messrs Fayad, Jones and Navarra are considered to have the appropriate experience and professional qualifications to provide the advice offered.

9.2. Independence

PKFCF is not aware of any matter or circumstance that would preclude it from preparing this Report on the grounds of independence, either under regulatory or professional requirements. In particular, we had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

PKFCF does not have any shareholding in, or other relationship with HHY, AIB or Aurora (including any of their related parties or associates) that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposals.

PKFCF considers itself to be independent in terms of ASIC Regulatory Guide 112 *Independence of Experts* ("RG 112"), issued by ASIC.

PKFCF will receive a fee based on the time spent in the preparation of this Report. PKFCF will not receive any fee contingent upon the outcome of the Offer.

Drafts of this Report were provided to the Directors of HHY and Aurora for review of factual accuracy. Certain changes were made to the Report as a result of the circulation of the drafts of the Report. However, our approach, valuation method and overall conclusions were not affected by the circulation of the draft reports.



Appendix 1 Glossary of terms

Set out below is a glossary of terms used in this Report.

Table 35: Glossary

Term	Definition
ABW	Aurora Absolute Return Fund.
AFARF	Aurora Fortitude Absolute Return Fund.
AFSL	Australian Financial Services Licence.
AIB	Aurora Global Income Trust.
AIB Consideration Units	Units in AIB to be issued to HHY Unitholders who accept the Offer.
AIB Unitholders	Current unitholders of AIB.
Antares Notes	Antares Energy Limited Convertible Notes.
AOD	Aurora Dividend Income Trust.
ASIC	Australian Securities & Investments Commission.
ASX	Australian Securities Exchange.
AUP	Aurora Property Buy-Write Income Trust.
Aurora	Aurora Funds Management Limited. Being the current responsible entity of AIB and HHY, and the investment manager of AIB.
Bidder's Statement	The bidder's statement issued by AIB on 18 November 2016 in relation to the proposal to acquire 100% of the issued units of HHY.
Chapter 2E	Chapter 2E of the <i>Corporations Act 2001</i> .
Consideration	Equal to the AIB Consideration Units.
Corporations Act	The <i>Corporations Act 2001</i> .
Deloitte	Deloitte Tax Services Pty Limited.
FUM	Funds under management.
GFC	Global financial crisis.
HHY	HHY Fund ARSN 112 579 129.
HHY Unitholders	Current unitholders of HHY.
Keybridge	Keybridge Capital Limited. Being the current investment manager of HHY.
LIC	Listed investment company.
LIT	Listed investment trust.
Meeting	The general meeting of HHY Unitholders to be held on 6 December 2016.
Merged Entity	The entity consisting of AIB and HHY upon completion of the Offer.
Merged Entity Units	Units of the Merged Entity.
Monark	Monark Residential Capital Pty Limited.
NAV	Net asset value.
NTA	Net tangible asset backing per share (post-tax).
Offer	The takeover offer submitted by AIB for 100% of the issued units of HHY as set out in the Bidder's Statement.
One Managed Investment	One Managed Investment Funds Limited.



Term	Definition
PKFCF, us, we or our	PKF Corporate Finance (NSW) Pty Limited ACN 097 893 957 AFSL 295872
Record Funds Management	Records Funds Management Limited.
Redemption Facility	The unit redemption facility in place for AIB Unitholders as described in Section 5.4.3 of this Report.
Report	This report dated 9 December 2016.
RG 111	ASIC Regulatory Guide 111 <i>Content of Expert Reports</i> .
RG 112	ASIC Regulatory Guide 112 <i>Independence of Experts</i> .
RG 76	ASIC Regulatory Guide 76 <i>Related Party Transactions</i> .
Seventh Orion	Seventh Orion Pty Limited ACN 613 173 238.
Target's Statement	The target's statement to be issued by HHY on or about the date of this Report, in response to the Bidder's Statement.
Valuation Date	Being 31 October 2016.
VWAP	Volume weighted average price.
WAM	Wilson Asset Management (International) Pty Limited and its related entities.



Appendix 2 Sources of Information

In preparing this Report we have had access to and relied upon the following principal sources of information:

- Annual Reports of HHY for the years ended 30 June 2015 and 2016;
- Management accounts of HHY for the four (4) months ended 31 October 2016;
- Annual Reports of AIB for the years ended 30 June 2015 and 2016;
- Management accounts of AIB for the four (4) months ended 31 October 2016;
- Other information published by HHY and AIB on the Australian Securities Exchange including various notices and announcements regarding the WAM Proposal;
- Other information published by Aurora on its website;
- Bidder's Statement issued by Aurora (in its capacity as responsible entity of AIB) dated 28 November 2016;
- Draft Target's Statement to be issued by Aurora (in its capacity as responsible entity of HHY) to be dated on or around 2 December 2016;
- Copy of the Investment Management Agreement between Aurora and Keybridge in relation to the management of HHY, dated 30 June 2016;
- Copy of the Product Disclosure Statements issued by AIB dated 1 July 2015;
- IBISWorld Industry Report, "Funds Management Services in Australia", September 2016;
- IBISWorld Industry Report, "Private Equity in Australia", August 2016;
- Information published by the ASX and Morningstar regarding ASX listed investment companies and listed investment trusts;
- S&P Capital IQ;
- other publicly available information.

In addition to the above, PKFCF has also had various discussions with the management of HHY, AIB and Aurora regarding the nature and prospects of their respective businesses and financial position.



Appendix 3 Valuation methods

In conducting our assessment of the Offer, the following commonly used valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow ("DCF") method is based on the premise that the value of a business or asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business or asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value ("NPV").

DCF is appropriate where:

- the businesses' or assets' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net value of the assets used in the business.

Valuation of net assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The value of the net assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.



The value of a trading company's net assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is usually attributable to intangible assets such as goodwill.

The value of net assets is relevant where a company is making sustained losses or profits at a level less than the required rate of return, where it is close to liquidation, where it is an asset holding company, or where all its assets are liquid. It is also relevant to businesses that are being segmented and divested and to value assets that are surplus to the core operating business. The net assets value methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the value of its net assets.

Security Market Trading History

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

Constant Growth Dividend Discount Model

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of investors.

Special Value

Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.



Appendix 4 Financial Services Guide

9 December 2016

What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided in the form of an independent expert report by PKF Corporate Finance (NSW) Pty Limited (ABN 65 097 893 957) ("PKFCF"). The use of "we", "us" or "our" is a reference to PKFCF as the holder of Australian Financial Services Licence ("AFSL") No. 295872.

The contents of this FSG include:

- who we are and how we can be contacted;
- what services we are authorised to provide under our AFSL;
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide;
- details of any potential conflicts of interest; and
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

Provide financial product advice for the following classes of financial products:

- securities;
- interests in managed investment schemes excluding investor directed portfolio services; and
- deposit and payment products limited to:
 - o basic deposit products;
 - o deposit products other than basic deposit products; and
 - o debentures, stocks or bonds issued or proposed to be issued by a government.

Our responsibility to you

We have been engaged by the Directors of Aurora Funds Management Limited in its capacity as responsible entity of HHY Fund ("Client") to prepare an Independent Expert's Report providing our opinion as to whether the Takeover Offer put forward by Aurora Funds Management Limited in its capacity as responsible entity of Aurora Global Income Trust, is fair and reasonable to the Non-associated Shareholders of the Client (the "Report"). Details of the Takeover Offer are set out in the Bidder's Statement and Target's Statement to which this Report accompanies. You are not the party or parties who engaged us to prepare the Report. We are not acting for any person other than the party or parties who engaged us. We are required by law to give you an FSG because the Report is being provided to you.

The liability of PKFCF is limited to the contents of this FSG and the Report referred to in this FSG.

Information about the general financial product advice we provide

The financial product advice provided in the Report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in the Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.

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PKF Corporate Finance (NSW) Pty Limited is member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member of correspondent firm or firms.

For our office locations visit www.pkf.com.au



Associations and relationships

PKFCF provides services primarily in the area of corporate finance and is partly owned by partners of the Sydney and Newcastle partnership of PKF, Chartered Accountants ("PKF"). PKF and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services. Our directors may be partners in the partnership of PKF. The financial product advice in the Report is provided by PKFCF and not by the partnership of PKF.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the partnership of PKF (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

How are we and our employees remunerated?

We charge fees for providing Reports. Fees are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us. Our fees are usually determined on an hourly basis. However they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services. The estimated fee for the Report is \$40,000 (exclusive of GST and out-of-pocket expenses).

Neither PKFCF, nor its directors and officers, receive any commissions or other benefits arising directly from providing Reports to you. The remuneration paid to our directors and staff reflects their individual contribution to the company and covers all aspects of performance. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding the Report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

AFS Compliance Manager
PKF Corporate Finance (NSW) Pty Limited
GPO Box 5446
SYDNEY NSW 2001
Telephone: +61 2 8346 6000 Fax: +61 2 8346 6099

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service ("FOS"). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FOS at:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: (03) 9613 7366 Fax: (03) 9613 6399
Internet: <http://www.fos.org.au>

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: info@asic.gov.au
Internet: <http://www.asic.gov.au/asic/asic.nsf>

Contact details

You may contact us using the details located below.

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