

ASX ANNOUNCEMENT

29 October 2018

HHY Fund (ASX: HHY)

Notice of Meeting

Aurora Funds Management Limited (**Aurora**), in its capacity as the responsible entity of the HHY Fund (ARSN 112 579 129) (**HHY**), today lodges a Notice of Meeting convening a meeting of HHY Unitholders (**Meeting**).

The Meeting will take place as follows:

Date: Thursday, 6 December 2018

Time: 10:30 am registration
11:00 am meeting commences

Venue: at the roof top meeting room (level 7), 370 St Kilda Road, Melbourne VIC 3004.

As previously announced, the Meeting is being called at the request of Wilson Asset Management (International) Pty Limited and its related entities (**WAME**). Unitholders should be aware that the proposed meeting and resolution have not been proposed or endorsed by Aurora.

The Board of Aurora has prepared, and includes with this Notice of Meeting, a detailed Explanatory Memorandum to assist HHY Unitholders in forming a decision on how to vote on the proposed resolution.

If you have any queries do not hesitate to contact Mr Adrian Tilley by telephone +61 411 886 626 or by email (adrian@aurorafunds.com.au).

Yours sincerely,

Aurora Funds Management Limited
as responsible entity for
HHY Fund



Adrian Tilley
Company Secretary

HHY Fund

ARSN 112 579 129

Notice of General Meeting

To be held at 11:00am on Thursday, 6 December 2018 at the roof top meeting room (level 7), 370 St Kilda Road, Melbourne VIC 3004.

Important Notices

This Notice of Meeting is issued by Aurora Funds Management Limited (ABN 69 092 626 885) (**Aurora**), as responsible entity of the HHY Fund (ARSN 112 579 129) (**HHY**).

General

This is an important document and requires your immediate attention. You should read this document, as well as the supplementary documentation foreshadowed by it, completely and carefully before deciding how to vote on the resolution set out in this Notice of Meeting and, if necessary, consult your investment, tax, legal or other professional adviser. A proxy form for the Meeting is enclosed.

Preparation and Responsibility

Other than as set out below, or otherwise indicated, this Notice of Meeting has been prepared by Aurora.

Annexure A of this Notice of Meeting, and the information therein, has been prepared by entities managed by Wilson Asset Management (International) Pty Limited and its related entities (**WAME**). Except to the extent required by law, Aurora does not assume responsibility for the accuracy or completeness of the information contained in Annexure A.

Investment Decisions

This Notice of Meeting does not take into account the investment objectives, financial situation, tax position or requirements of any particular person. The information contained in this Notice of Meeting is not financial product advice. This Notice of Meeting should not be relied on as the sole basis for any investment decision in relation to your HHY units or otherwise. You should seek independent financial and taxation advice before making any decision in relation to HHY units or the resolutions set out in the Notice of Meeting. It is important that you read this Notice of Meeting in full before making any decision as to how to vote on the resolutions set out in this Notice of Meeting.

Forward looking statements

This Notice of Meeting may contain forward looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause actual results to vary from those forward looking statements or results express or implied therein.

Variance between actual results and events or results expressed or implied within forward looking statements are typical and expected. Aurora, nor any person mentioned within this Notice of Meeting, makes or attempts to make any warranty or representation, express or implied, as to the likelihood, or accuracy of the realisation of those forward looking statements. It is prudent not to place undue reliance on those statements and, if necessary, consult a professional advisor with respect to those statements prior to making any decision relating to the resolutions set out in this Notice of Meeting.

Notice to foreign persons

This Notice of Meeting has been prepared to comply with the requirements of the laws of Australia, which may differ from the requirements in jurisdictions outside of Australia.

This Notice of Meeting is dated 29 October 2018.

Notice of General Meeting for HHY Fund (ARSN 112 579 129)

Notice is hereby given by Aurora Funds Management Limited as responsible entity for HHY Fund that a meeting of HHY Unitholders (**Meeting**) will be held at the roof top meeting room (level 7), 370 St Kilda Road, Melbourne VIC 3004 on Thursday, 6 December 2018 at 11:00am.

Aurora notifies that it has exercised its power under section 252S of the Corporations Act and appointed the chairman of directors of Aurora, Mr A.G. Hartnell AM to chair the Meeting. Mr Hartnell is a well-known public company director, experienced lawyer and was the inaugural chairman of ASIC.

Business of the Meeting

Resolution 1 – Winding up of the HHY Fund

To consider and, if thought fit, pass the following resolution as an extraordinary resolution:

“That in accordance with Section 601NE(1)(b) of the Corporations Act 2001 (Cth), the responsible entity of the HHY Fund (ARSN 112 579 129) is directed to wind up the HHY Fund.”

Voting on Resolution 1 will be by extraordinary resolution (**Resolution**). To be approved, an extraordinary resolution must be passed by at least 50% of the total votes that may be cast by Unitholders entitled to vote on the resolution (including Unitholders who are not present in person or by proxy). This means that 50% of ALL Unitholders eligible to vote must vote in favour of the Resolution for it to pass.

Please refer to the accompanying Explanatory Memorandum for more information on the Resolution.

By order of the Board of Aurora Funds Management Limited.

Yours sincerely,



Adrian Tilley
Company Secretary
29 October 2018

Explanatory Notes on the Notices of Meeting

1.1 Defined Terms

Unless otherwise defined, capitalised terms have the meaning given in this Notice of Meeting.

1.2 Attendance at the Meeting

In the event that you do not wish to attend the Meeting you may complete and return the Proxy Form enclosed. However, you may attend and vote at the Meeting if you wish.

If you wish to cast your vote in person at the Meeting, you or, if you are a body corporate, your corporate representative, may attend the Meeting.

1.3 Proxy

A HHY unitholder, for the purposes of the Meeting, are registered holders of units in HHY 48 hours prior to the time of the Meeting (**Unitholder**), are entitled to attend and vote at the Meeting and has a right to appoint a proxy to attend and vote on behalf of the HHY Unitholder. A proxy need not be a HHY Unitholder and may be either an individual or a body corporate. If a HHY Unitholder appoints a body corporate as a proxy, that body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at the meetings, in accordance with s 253B of the Corporations Act; and
- provides satisfactory evidence of the appointment of its corporate representative prior to the commencement of the Meeting.

If such evidence is not received before the meetings, the body corporate (through its representative) will not be permitted to act as a proxy.

A HHY Unitholder that is entitled to cast two (2) or more votes may appoint two (2) proxies and specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the votes.

A HHY Unitholder may appointment a proxy either by completing, signing and returning a Proxy Form in accordance with the instructions below and on the Proxy Form or electronically by following the instructions at the website of BoardRoom, HHY's unit registrar, (<https://boardroomlimited.com.au/>). We urge you to either attend the Meeting in person or appoint a proxy to vote on your behalf.

A Proxy Form accompanies this Notice of Meeting.

For an appointment of a proxy to be effective for the Meeting:

- if using a Proxy Form, the Proxy Form must be received by BoardRoom, as HHY's unit registrar, at least 48 hours prior to the scheduled time for commencement of the Meeting. Unitholders appointing a proxy must also send the original or certified copy of any power of attorney or authority under which the proxy was signed (if applicable). The documents should be delivered to HHY's registry:

By mail
GPO Box 3993
Sydney NSW 2001

By facsimile:
+61 2 9290 9655

Website:
www.boardroomlimited.com.au

1.4 Voting Entitlements

Aurora has determined that the units will be taken to be held by the persons who are the registered holders 48 hours prior to the commencement of the Meeting.

1.5 Voting Exclusions

Section 253E of the *Corporations Act 2001* (Cth) provides that a responsible entity of a managed investment scheme and its associates are not entitled to vote their interest on any resolutions if they have an interest in the resolution other than as a member.

1.6 Quorum and Majority Required

The constitution of HHY states that the quorum necessary for a meeting of HHY Unitholders convened to consider the Resolutions is at least two (2) HHY Unitholders.

1.7 Further information

If you have any questions please contact Mr Adrian Tilley by telephone on +61 411 886 626 or by email at adrian@aurorafunds.com.au.



Explanatory Memorandum

in relation to members' resolution to be voted on by eligible unitholders of the HHY Fund at a meeting to be held on 6 December 2018.

Date: 29 October 2018

This Explanatory Memorandum has been issued by Aurora Funds Management Limited (ACN 092 626 885) (**Aurora**), as responsible entity of the HHY Fund (ARSN 112 579 129) (**HHY or Fund**), in relation to a meeting called by Wilson Asset Management (International) Pty Limited and its related entities (**WAME**) pursuant to sections 252B and 601NB of the *Corporations Act 2001 (Cth)* to consider and vote on an extraordinary resolution concerning the winding up of HHY (**Resolution**).

**The directors of the Responsible Entity unanimously
recommend that you vote AGAINST the Resolution**

This is an important document and requires your immediate attention. You should read the document in its entirety before deciding how to vote on the resolutions and, if necessary, consult your investment, tax, legal or other professional adviser.

Important Notices to the Explanatory Memorandum

This Explanatory Memorandum is issued by Aurora Funds Management Limited (ABN 69 092 626 885) (**Aurora**), as responsible entity of the HHY Fund (ARSN 112 579 129) (**HHY** or **Fund**).

Defined Terms

Unless otherwise defined, capitalised terms have the meaning given in this Explanatory Memorandum or in the accompanying Notice of Meeting dated 29 October 2018 (**Notice of Meeting**).

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for unitholders in relation to a request from members holding at least 5% of the votes that may be cast in relation to Resolution concerning the winding up of HHY, to be considered and voted on at the meeting of unitholders to be held at the roof top meeting room (level 7), 370 St Kilda Road, Melbourne VIC 3004, commencing at 11.00am on Thursday 6 December 2018.

This Explanatory Memorandum forms part of the Notice of Meeting and contains detailed information in respect of the Resolution.

The purpose of this Explanatory Memorandum is to provide unitholders with an explanation of the Resolution and to assist unitholders in determining how to vote on the Resolution. You have received this document because as a unitholder in HHY you are asked to consider and vote on the Resolution.

General Information

This is an important document and requires your immediate attention. You should read this Explanatory Memorandum, together with the Notice of Meeting, in their entirety before deciding how to vote on the Resolution.

The information contained in this Explanatory Memorandum does not constitute a personal recommendation by Aurora or any of its affiliates, employees, officers or agents in relation to any financial product or advice. This Explanatory Memorandum has been prepared without taking into account any person's particular investment objectives, financial situation or needs. You should assess the information contained within this Explanatory Memorandum and if necessary consult your investment, tax, legal or other professional adviser.

A proxy form for the meeting is enclosed within the Notice of Meeting or sent to you separately if you have since become a registered unitholder.

ASIC involvement

ASIC and its respective officers take no responsibility for the contents of this Explanatory Memorandum

Preparation and Responsibility

Other than as set out below, or otherwise indicated, this Explanatory Memorandum has been prepared by Aurora. Except to the extent required by law, Aurora does not assume responsibility for the accuracy or completeness of the information not put forward by Aurora.

Investment Decisions

This Explanatory Memorandum does not take into account the investment objectives, financial situation, tax position or requirements of any particular person. The information contained in this Explanatory Memorandum is not financial product advice. This Explanatory Memorandum should not be relied on as the sole basis for any investment decision.

You should seek independent financial and taxation advice before making any decision in relation to HHY units, the Resolution or the information contained within the Notice of Meeting or Explanatory Memorandum. It is important that you read this Explanatory Memorandum, together with the Notice of Meeting, in full before making any decision as to how to vote on the Resolution.

Forward looking statements

This Explanatory Memorandum may contain forward looking statements which are subject to known and unknown risks, uncertainties and other factors that may cause actual results to vary from those forward looking statements or results express or implied therein.

Variance between actual results and events or results expressed or implied within forward looking statements are typical and expected. Aurora, nor any person mentioned within this Explanatory Memorandum, makes or attempts to make any warranty or representation, express or implied, as to the likelihood, or accuracy of the realisation of those forward looking statements. It is prudent not to place undue reliance on those statements and, if necessary, consult a professional advisor with respect to those statements prior to making any decision relating to the Resolution, Notice of Meeting or Explanatory Memorandum.

Notice to foreign persons

This Explanatory Memorandum has been prepared to comply with the requirements of the laws of Australia, which may differ from the requirements in jurisdictions outside of Australia.

Explanatory Memorandum

Date: 29 October 2018

1. Preliminary Information Relating to the Meeting

1.1 What is in this document?

This Explanatory Memorandum sets out the background to the Resolution as set out in the Notice of Meeting dated 29 October 2018 (**Notice of Meeting**) and other relevant information considered important to your decision in relation to the Resolution.

1.2 Background

HHY holds a portfolio of investments, providing unitholders with exposure to listed and unlisted Australian and international equities, options, convertible notes as well as high yield securities in the form of loans and hybrid instruments.

Aurora was established in 2003 and is a boutique funds manager specialising in managing funds that invest in Australian and global listed securities and derivatives. On 30 June 2015, Aurora was appointed as responsible entity of HHY.

This is the third meeting of HHY unitholders requisitioned or called by WAME and its associated entities over the past few years and the reasons put forward in support of this meeting appear to be misguided. Since the last meeting, WAME has also increased its unitholding in the Fund from 20.65% to 29.90% (per the Form 604 Notices lodged with the ASX).

Aurora also notes that WAME hasn't paid the costs of the last meeting that it called at its expense, and which was held on 6 December 2016, nearly two (2) years ago. To ensure the Independent Chairman was not financially disadvantaged, Aurora paid those costs and is still waiting to be reimbursed by WAME.

As at 30 September 2018, HHY's NTA was 10.2 cents per unit, representing a 21.5% net return for the financial year to date. After excluding the poor performance of Yowie Group Ltd (**Yowie**), HHY's NTA would have been 11.42 cents per unit.

The major criticism by WAME of the performance of HHY, if any, is attributable to the poor performance of its investment in Yowie, a company which Mr Wilson has been a vocal supporter of in recent times. Mr Wilson recently wrote a letter to the Board of Yowie expressing his support for the 'excellent' job they had done. In circumstances where Yowie's share price is circa 50% lower than 12 months ago, Aurora wishes to highlight the inconsistency demonstrated by WAME.

The Resolution to be proposed at the Meeting and to be voted on by you and all unitholders is set out in the accompanying Notice of Meeting. It is recommended you read this Explanatory Memorandum, together with the Notice of Meeting, in its entirety.

1.3 Why has this Meeting been called?

On 8 October 2018, Aurora was issued with a notice of requisition of meeting pursuant to sections 252B and 601NB of the Corporations Act 2001 (**Requisition Notice**) by entities managed by Wilson Asset Management (International) Pty Ltd and its related entities (**WAME**). Under law, Aurora is obligated to call a meeting of HHY unitholders to consider and vote on the Resolution as set out within that Requisition Notice.

The Meeting and the Resolution have not been proposed or endorsed by Aurora. The Board of Aurora, as HHY's Responsible Entity, does not support the Resolution and strongly urges that unitholders vote **AGAINST** it. The Board's reasons for their views are set out in section 2 of this Explanatory Memorandum.

1.4 What is the subject matter of the Resolution?

The extraordinary resolution, which WAME requested to be put to the Unit Holders, concerns the following:

Resolution 1: The winding up of HHY

The Resolution to be proposed at the Meeting and to be voted on by you and all unitholders is set out in the Notice of Meeting.

1.5 How do I follow the Responsible Entity's Recommendation?

VOTE AGAINST THE RESOLUTION SO HHY CAN CONTINUE OPERATING.

If you want to follow the recommendation of your responsible entity and their directors so that the Fund may continue, you should:

- vote **AGAINST** Resolution 1: Winding up of HHY Fund

If you are voting by proxy, please use the Proxy Form accompanying the Notice of Meeting.

1.6 Who is paying for the Meeting?

The cost of calling and convening this Meeting, as requested by WAME, is to be met by HHY unitholders, in accordance with the requirements of the Corporations Act.

This was not the case in respect of an earlier meeting requisitioned by RBC Investor Services Australia Nominees Pty Limited as custodian for WAM Capital Limited, WAM Active Limited and Botanical Nominees Pty Ltd as trustee for the Wilson Asset Management Equity Fund (**WAM**), which was held on 6 December 2016. The costs of that meeting were the responsibility of WAM, as it was the party calling the meeting. However, at the time of writing (nearly two (2) years later), WAM has still not paid the costs of the independent Chairman appointed to Chair that meeting. To ensure the independent Chairman was not financially disadvantaged, Aurora paid those costs and is still waiting to be reimbursed by WAM.

2. Reasons to Vote Against or For the Resolution and Aurora's Recommendation

2.1 Directors' Recommendation to vote AGAINST the Resolution

Aurora has not proposed, endorsed, and does not support the proposed Resolution in any manner, and strongly urges unitholders to vote **AGAINST** the Resolution.

Your vote is important and, for the reasons outlined in this section 2.1 and section 2.2, the Directors of the responsible entity recommend you vote AGAINST the Resolution.

The alternative proposed by WAME to wind up the Fund, is not considered in the best interests of unitholders as it is likely to result in a return of capital below NTA, after the forced realisation of investments and the costs of winding up the Fund, not to mention the potential loss of carry forward tax losses. Aurora therefore recommends that the Resolution be rejected by unitholders.

Recommendations

Winding up of the Fund imposes the will of certain unitholders to the detriment of unitholders who would like to remain invested in HHY. A winding up prevents the opportunity for the Fund to continue through the market cycle and succeed in realising the expected benefits.

In the unanimous opinion of the Board of the responsible entity, pursuing the Resolution is unlikely to deliver optimal results to you and all unitholders for the following reasons:

1. Winding up the Fund is short-term orientated and does not consider or take account of the long-term interests of all unitholders;
2. Winding up of HHY may result in the responsible entity of HHY being a forced seller of certain investments by the Fund which in turn may not maximise the proceeds available to unitholders;
3. Winding up of HHY may result in unexpected transaction costs, reducing the proceeds available to unitholders;
4. HHY has accumulated historical tax losses of circa \$36.1 million that may be utilised by the Fund, subject to satisfying the various tax loss tests, to offset against tax liabilities incurred on future profits. The potential value of these tax losses have not been recognized as an asset of the Fund and may be forfeited should the Fund be wound up;
5. The assets of HHY may increase in the future, depending on the performance of the underlying investments, resulting in unit values and distributions in excess of those contemplated under the Resolution;
6. The winding up and return of capital in the Fund may have tax implications for individual investors that should be considered with your tax professional;
7. Aurora questions the motivations of WAME and its associated entities, with this being the third unitholder meeting called or requested by WAME or associated entities in the past few years;
8. During the same time as it has criticised the Fund and its management, WAME has materially increased its unitholding in HHY, which hardly suggests a lack of confidence on the performance of the Fund or its management. If WAME genuinely held the concerns cited, how could it consider that materially increasing its ownership was in the best interests of its investors;
9. The performance of HHY has been adversely impacted by its substantial investment in Yowie Group Limited (**Yowie**). As at 30 September 2018, HHY's NTA was 10.2 cents per unit, representing a 21.5% net return for the financial year to date. After excluding the poor performance of Yowie, HHY's NTA would have been 11.42 cents per unit. Interestingly, Mr Wilson has been a vocal supporter of Yowie's performance, having recently written a letter to the Board of Yowie expressing his support for the 'excellent' job they had done. In circumstances where Yowie's share price is about 50% lower than 12 months ago, Aurora has difficulty in reconciling Mr Wilson's actions.
10. Aurora, in its capacity as responsible entity for the Aurora Global Income Trust (AIB), made a takeover offer for HHY in 2016, in part to provide HHY unitholders with the ability to redeem their investment off-market at NAV, a liquidity option not widely available to other listed securities. This would have enabled WAME and its associated entities to exit their investment at NTA, however they elected not to do so; and
11. Aurora has the capability, experience, systems and resources to continue in its role as Responsible Entity of HHY.

Detailed reasons to vote AGAINST the Resolution are outlined in section 2.2 below.

2.2 Key Reasons to vote AGAINST the Resolution

In calling for the unitholder meeting, WAME put forward a number of reasons to support this initiative. Before commenting on a number of their reasons, it is worth noting:

1. This is the third meeting called or requisitioned by WAME and its associated entities over the past few years;
2. Notwithstanding the dissatisfaction expressed by WAME and its associated entities, since the date of the last meeting (being 6 December 2016), WAME has nevertheless elected to materially increase its unitholding in HHY;
3. The costs associated with the last meeting called by WAME, at its expense, remain unpaid. To ensure the independent Chairman of that meeting, held on 6 December 2016, was not financially disadvantaged, Aurora personally paid those costs and is still awaiting reimbursement from WAME and its associated entities; and
4. In a letter dated 19 October 2016, entities associated with WAME made the following comment in respect of investments held by HHY. *"The holdings are substantial and so the prices at which these securities trade on ASX do not necessarily reflect the market value of these investments. Any sale of these investments, even at prices consistent with the prices at which these securities trade on ASX, will not be in the best interests of HHY Fund members"*; and

In response to those concerns, about the gap between NTA and the market traded price, Aurora in its capacity as responsible entity for the Aurora Global Income Trust (**AIB**), announced a takeover offer for HHY Fund on 29 September 2016 in which units in AIB were offered for HHY units on an NTA for NTA basis. AIB's bid provided unitholders with the ability to redeem their investment off-market at Net Asset Value, a liquidity option not widely available to other listed securities. WAME and its associated entities elected not to accept the AIB takeover offer and obtain that ability to realise a return at Net Asset Value despite its criticism, but rather remained invested in HHY and then increased their holding.

2.2.1 HHY's Performance

As at 30 September 2018, HHY's NTA was 10.2 cents per unit, including the relatively poor performance of its investment in Yowie.

As a result of concerns over the poor performance of Yowie, and the adverse impact this was having on HHY, Aurora requested a shareholder meeting so that Yowie's shareholders could consider a change to the composition of the Yowie board.

On 2 October 2018, Mr Geoff Wilson, on behalf of Wilson Asset Management, wrote a letter to the Chairman of Yowie, stating that *"the management team has done an excellent job to strengthen and grow Yowie. The Company is making solid progress to grow US sales, expand distribution, reduce costs and become profitable and cash flow positive this year"*.

On the one hand, Mr Wilson is happy with Yowie's performance, yet he is unhappy with HHY's performance, which has been directly and adversely impacted by Yowie's performance.

In the request received from WAME, Mr Wilson selectively compares the Fund's NTA at points in time with its market price, which is misleading and has the potential to confuse the reader.

Aurora notes that it reports the NTA for each of its Funds after all costs and expenses, in line with ASIC Regulatory Guide 53¹.

By contrast, the manner in which WAM Capital Limited (WAM), WAM Active Limited (WAA), and other WAME entities report financial performance is on a gross basis, which has the potential to be misleading and to confuse investors. Gross investment performance figures omit the impact of all operating expenses and fees, including management fees and performance fees, on investor net returns.

Whilst Mr Wilson is critical of HHY's operating expenses, he chooses to exclude the effect of all operating expenses, management fees and performance fees when calculating the returns to WAME investors.

In respect of the Financial Year ended 30 June 2018 (FY18), WAM Active Capital Limited (WAA) reported (gross) investment performance of 15.7% versus the S&P/ASX All Ordinaries Accumulation Index, which returned 13.7% over the same period, with WAA claiming to have outperformed its benchmark by +2.0%. The actual net return to WAA investors was 9.2%² after fees and expenses. Therefore, WAA actually underperformed its benchmark by -

¹ <https://download.asic.gov.au/media/1238984/rg53.pdf>

² WAA had NTA \$1.06 (pre-tax) as at June 30 2017, paid 5.7 cents in dividends and had \$1.10 NTA (pre-tax) at 30 June 2018.

4.5% in FY18, on a net basis (after all costs and fees). Aurora believes WAA's performance reporting to be misleading, as WAA's reported outperformance figures overstate net performance to investors by 6.5%³. Furthermore, despite WAA shareholders underperforming on a net basis, in FY18 WAA paid \$1,169,734 in performance fees to an entity 100% owned by Mr Wilson.

Similarly, for FY18, WAM reported (gross) investment performance of 15.0% versus the S&P/ASX All Ordinaries Accumulation Index, which returned 13.7% over the same period, with WAM claiming to have "outperformed" the benchmark by +1.9%. The actual net returns to WAM investors, after fees and expenses, was 11.8%⁴. Therefore, WAM actually underperformed its benchmark by -1.8% in FY18, on a net basis (after costs and fees). Aurora believes WAM's performance reporting to be misleading, as WAM's reported outperformance figures overstate net performance to investors by 3.1%⁵. Furthermore, despite WAM shareholders underperforming on a net basis, in FY18 WAM paid \$339,457 in performance fees to an entity 100% owned by Mr Wilson.

Aurora finds it odd that Mr Wilson has raised concerns with HHY's operating expenses and performance when in fact his own entities may be misleading their own investors by omitting the effect of operating expenses, management fees and performance fees from their performance figures. Aurora notes that investors ultimately receive net returns, not gross returns. Additionally, gross performance reporting becomes increasingly distorted over time due to the effects of compounding.

ASIC Regulatory Guide 53 (RG53) states that "The use of gross returns may be **misleading**."

Furthermore, RG53 states "Potential investors are interested in the true returns they receive, i.e. returns after fees ('net returns'). Many investors would assume that returns quoted in promotions are net returns. Also, the use of figures calculated in different ways restricts comparison between products and services from different entities." Aurora invites HHY unitholders to read section 12 of RG 53 to which HHY reporting complies.

2.2.2 Misappropriation of Funds

In November 2017, Aurora identified the misappropriation of funds from the Aurora Property Buy-Write Income Trust (**AUP**) by a former executive director. What was uncovered was that the former executive had been misappropriating funds, primarily from Aurora's corporate bank account, for several years. This activity pre-dated the acquisition of Aurora by Seventh Orion Pty Ltd as trustee for the Aurora Investments Unit Trust. Former management had not discovered this conduct nor had the auditors. It was current management that uncovered this defalcation.

Immediately, upon discovering this situation, the employment of this person was terminated and the matter was reported to Victoria Police. Aurora also made a prompt announcement to the ASX, so that the market was immediately informed, and reported the matter to ASIC, its auditors and its insurer. An external forensic accounting firm was also engaged to review the situation.

In response to the detection of this fraudulent activity, Aurora made the decision to change its external auditor as well as its Unit Registry provider. Aurora also reimbursed AUP for the misappropriated funds and compensated AUP for its lost earnings on these funds, so that its investors were not financially disadvantaged.

To date, Aurora has recovered a portion of the misappropriated funds, with its former Unit Registry provider, Registry Direct Limited, having returned a portion of the misappropriated funds.

The impact of fraud on small businesses, or any business for that matter, is devastating. It represents a breach of trust of the highest order, adversely impacting confidence and business reputation. Aurora acknowledges that fraudulent activity is widespread in corporate Australia, however would not wish for this activity to happen to any other business, whether they be friendly, adversarial or otherwise.

In the circumstances, Aurora believes it took decisive and responsible actions, in what was a difficult situation, and put the interests of its investors ahead of its own. Aside from the diversion of time and effort required to deal with this issue, the performance and assets of HHY were not affected by this fraud.

2.2.3 Discount to NTA

As mentioned above, the takeover offer made by AIB for HHY in 2016 was designed to provide HHY unitholders with the ability to redeem their investment off-market at NAV, a liquidity option not widely available to other ETP's.

³ <https://au.spindices.com/indices/equity/all-ordinaries>, Aurora also notes that it has intentionally omitted the effect of franking credits received from [what], which is consistent with WAA's benchmark, which also excludes the effect of franking.

⁴ WAM had NTA \$1.95 (pre-tax) as at June 30 2017, paid 15.5 cents in dividends and had \$2.0261 NTA (pre-tax) at 30 June 2018.

⁵ <https://au.spindices.com/indices/equity/all-ordinaries>, Aurora notes that it has intentionally omitted the effect of franking credits received, which is consistent with WAM's benchmark, which also excludes the effect of franking.

Interestingly, WAME and its associated entities elected not to accept the AIB takeover offer, so as to be able to realise NAV at any time, but rather increased its holding in HHY.

Aurora also notes that Mr Wilson is a director of 8IP Emerging Companies Limited (ASX:8EC), having been appointed to the Board on 11 April 2018, just prior to the date of a shareholder meeting called by Aurora, held on 16 April 2018. This appointment also coincided with the announcement of a strategic relationship with Wilson Asset Management, no details of which have been provided to ASX to date. 8EC also trades at a substantial discount to its NTA, often around 20%, however Aurora notes that no steps have been taken by that Company to wind up its operations despite Mr Wilson being a director. In fact Mr Wilson opposed Aurora's strategy to remedy the discount to 8EC's NTA.

2.2.4 General Winding Up Considerations

Should the Resolution to wind up HHY be passed by unitholders, Aurora would be required to realise the assets and investments of HHY. The nature of such a process may result in the realisation of assets being lower than otherwise would be achieved in the normal course of operation.

2.2.5 Transaction Costs

A forced sale of HHY's assets and the winding up of the Fund generally, may result in unexpected transaction costs reducing the sale proceeds and the overall pool of funds available to be distributed to unitholders. Utilisation of these resolutions to exit the Fund in this manner may also be to the long-term detriment of unitholders and presents as a notable opportunity cost.

Winding up of HHY also poses further transactional costs and risks which may out-weigh any potential benefits, including disposing of the assets of HHY below market value, before expected returns can be generated on maturity of some of the more illiquid investments, and liquidation of the Fund itself. The ability to achieve exit outcomes at optimum value on all of the investments, where some are illiquid or have longer time frames attached to achieve full returns, may be impeded and also have unintended value consequences as cash generated too early will struggle to achieve reasonable returns while the manager of the wind up seeks to dispose of the more illiquid positions prior to completion of the wind up and returning of any remaining capital.

2.2.6 Potential Adverse Tax Consequences and loss of Deferred Tax Asset

The forced wind up of HHY may result in adverse tax consequences for unitholders. The Fund currently has significant historical accumulated tax losses of circa \$36.1 million that may be utilised by the Fund, subject to satisfying the various tax loss tests, to offset against tax liabilities incurred on future profits. The winding up of the fund may result in unitholders forfeiting the potential benefit of these unrealised tax losses in the Fund, which would otherwise be an intangible asset for the benefit of all unitholders.

2.3 Key Reasons to vote FOR the Resolution

Reasons for voting in favour of the Resolution are given in WAME's statement which is contained as Annexure A to the Notice of Meeting.

3. Information relating to the Proposed Resolution

3.1 Winding up of a Registered Scheme

Under section 601NB of the Corporations Act, if unitholders of a registered scheme wish to wind up the registered scheme, they may take action under Division 1 of Part 2G.4 of the Corporations Act through the calling of a members' meeting to consider and vote on a resolution that the responsible entity wind up the scheme.

Under section 601NE(1)(b) of the Corporations Act, the kind of resolution that unitholders must pass to compel the responsible entity to wind up the scheme is an extraordinary resolution.

An extraordinary resolution will be passed if at least 50% of the total votes that may be cast by unitholders entitled to vote on the resolution (including unitholders who are not present in person or by proxy). This means that 50% of ALL unitholders eligible to vote must vote in favour of the Resolution for it to pass.

3.5 Consequence if the Resolution is passed

If the Resolution is passed, the current responsible entity is directed to wind up the Fund in accordance with the Constitution of HHY and the Corporations Act.

Winding up involves realising all of the assets of the scheme, deductible reasonable costs (including unpaid creditors) and distributing the balance, if any, amongst the unitholders pursuant to the Constitution of HHY and according to the respective interests of the unitholders in the Fund.

4. Additional Information

4.1 Have any major unitholders indicated how they will vote?

Aurora has not received any written indication of any voting intent, however, Aurora assumes that WAME, as the member requesting the Meeting, will vote in favour of the Resolution.

Annexure A – Statement from Wilson Asset Management (International) Pty Limited – 8 October 2018

Statement Accompanying Member Request

Unitholders must decide on HHY Fund's future now

Dear Fellow HHY Fund (HHY) unitholders,

Ask yourself this question – Is the value of your investment in HHY higher today than two years ago? If not, you should VOTE IN FAVOUR of the RESOLUTION to wind up HHY and return capital to unitholders.

Entities managed by Wilson Asset Management (International) Pty Limited and its related entities (**WAME**, or **we**) have requisitioned a unitholder meeting to consider a resolution to wind up HHY.

We are deeply concerned about the conduct of HHY's responsible entity (*Aurora*), as well as HHY's substantial underperformance and its high ongoing costs. In considering the future of HHY, unitholders should be mindful of:

- Loss of unitholder assets;
- Loss of unitholder value;
- Excessive operating expenses;
- Regular failure to comply with ASX listing rules;
- Aurora Director associated with theft;
- Aurora's indirect owner, Nicholas Bolton, disqualified by ASIC;
- Aurora Dividend Income Trust suspended from Official Quotation;
- HHY's ongoing trading at discount to net tangible assets (**NTA**);
- Questionable conduct.

In light of these facts, we believe that unitholders have no other choice but to vote to wind up HHY.

Loss of unitholder assets

The NTA for HHY units has fallen 29.2% since WAME called a meeting to wind up the fund on 2 August 2016 (12.72c on 31 July 2016 to 9.0c as at 31 August 2018). Thirty minutes before the initial meeting was held on 29 September 2016, Aurora Fund Management Limited as responsible entity of the Aurora Global Income Trust (**AIG**) announced its intention to make a takeover bid for 100% of HHY. As a result, the meeting was adjourned. Proxies received and known to Aurora prior to the meeting confirmed that all resolutions put to unitholders by WAME would have passed, including HHY's winding up. The NTA as at 30 September 2016 was 12.53c, unfortunately the current unit price is 36.2% lower at 8.0c.

Since 31 July 2016, HHY's NTA has fallen 29.2% compared to the S&P ASX All Ordinaries Accumulation Index (**All Ords Index**) which has risen 24.6% over the same period. This underperformance of 53.9% validates concerns WAME raised in 2016, with Aurora's underperformance subsequently devaluing unitholder assets.

The unit price of AIG, the fund that bid for HHY, has fallen more than 70% from the date the scrip takeover bid for HHY was announced (77.5c on 29 September 2016 to 23.0c as at 5 October 2018). Unitholders who accepted that bid have also lost significant value.

Loss of unitholder value

Over the 12 months to 28 September 2018, HHY's unit price has fallen 33.3% (10.5c to 7.0c) while the All Ords Index has risen 14.7%. This represents an underperformance of 48.0% over the period.

During financial year 2018, revenues from HHY's investment activity decreased 277.77% compared to the corresponding 2017 period. The loss HHY incurred during financial year 2018 increased 90.27% compared to the corresponding 2017 period.

Excessive operating expenses

During financial year 2018, total expenses were \$424,951 on assets of \$6.9m at 30 June 2018. During the period, operating costs were 428.6% higher than the management fee.

Frequent failure to comply with ASX listing rules

During calendar years 2017 and 2018, Aurora as responsible entity for HHY has failed six times in its obligation under ASX Listing Rule 4.12 to disclose HHY's NTA within 14 days of the end of each calendar month.

We are concerned that HHY securities may therefore have traded in an uninformed market.

Aurora Director associated with theft

In February 2017, Ms Betty Poon, the CFO, Executive Director and Company Secretary of Aurora, misappropriated \$1 million of unitholder funds by misdirecting money into her personal account from a bank account held in the name of Aurora as responsible entity for the Aurora Property Buy-Write Income Trust.

Ms Poon's fraud remained undetected by Aurora for approximately nine months.

Following the ASIC investigation into this misappropriation of investors' funds, ASIC has acted to address concerns about the operations of Aurora. ASIC has imposed conditions on Aurora's Australian financial services licence which currently remain in place. ASIC remains concerned that the misappropriation of funds, and Aurora's failure to detect it for several months, occurred due to significant deficiencies in Aurora's corporate governance and risk management frameworks. In ASIC's opinion, Ms Poon held several senior and conflicting roles that facilitated the incident and cover-up of her fraud.¹

Aurora indirect owner disqualified by ASIC

On 17 November 2015, Mr Nicholas Bolton, 49.9% owner of Aurora via an investment in the Aurora Trust was disqualified from being a director of, or taking part in managing, a corporation for three years by ASIC.

Aurora Dividend Income Trust Suspended from Official Quotation

On 21 September 2018, Aurora Dividend Income Trust (ADD), another fund of which Aurora is the responsible entity, announced its immediate suspension from quotation under ASX Operating Rule 10A.8.1, pending enquiries about ADD's market-making arrangements. That suspension remains in place.

¹ "18-184MR ASIC imposes licence conditions on Aurora Funds Management Limited", 26 June 2018; <https://asic.gov.au/about-asic/media-centre/find-a-media-release/2018-releases/18-184mr-asic-imposes-licence-conditions-on-aurora-funds-management-limited/>

Discount to NTA

To compound the poor performance of HHY, unitholders are unable to sell their units on-market at or close to NTA.

At the close of trading on 5 October 2018, HHY units were trading at 8c, representing an 11.1% discount to the last announced NTA (August 2018).

Questionable conduct

ASIC has submitted in Takeover Panel Review proceedings that Aurora had been involved in collaborative conduct in defending Aurora's position as responsible entity of HHY, the Aurora Global Income Trust (AIG) and the Aurora Fortitude Absolute Return Fund.²

Unitholders should VOTE IN FAVOUR of the RESOLUTION to wind up HHY.

--ENDS--



All Correspondence to:

- ✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia
- 📠 **By Fax:** +61 2 9290 9655
- 💻 **Online:** www.boardroomlimited.com.au
- ☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 11:00am on Tuesday 4 December 2018.**

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the fund. Do not write the name of the issuer fund or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the fund's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the fund's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **11:00am on 4 December 2018**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

- 📠 **By Fax** + 61 2 9290 9655
- ✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia
- 👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

☐

Your Address

This is your address as it appears on the funds's unit register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Aurora Funds Management Limited, in its capacity as responsible entity for the HHY Fund** (Fund) and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting** (mark box)

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered unitholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the General Meeting of the Fund to be held at the roof to meeting room, **Level 7, 370 St Kilda Road, Melbourne VIC 3004 on 6 December 2018 at 11:00am** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote undirected proxies in favour of each of the items of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

Resolution 1 To WIND UP the HHY Fund

For **Against** **Abstain***

☐☐☐

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2018