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ABN 27 058 693 388
AFSL No. 238309

ASX Announcement

Hastings High Yield Fund (HHY)

Total pages: 10

2 June 2015

Supplementary Explanatory Memorandum

Hastings Funds Management Limited as responsible entity of HHY (Hastings) today announced the release of a Supplementary Explanatory Memorandum, which should be read together with the Notice of Meeting and the Explanatory Memorandum sent to HHY unit holders on 25 May 2015.

The Supplementary Explanatory Memorandum provides HHY unit holders with additional information in relation to the more material tax matters - the tax losses in HHY in particular - which are relevant for unit holders in making an informed decision on how to vote on the resolutions to be put to HHY unit holders at the general meeting on 29 June 2015.

HHY unit holders should carefully read the Supplementary Explanatory Memorandum, together with the Notice of Meeting and Explanatory Memorandum already sent to them in considering the resolutions put to unit holders at the general meeting on 29 June 2015.

For further enquiries, please contact:

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Hastings Funds Management Limited

Unless otherwise stated, the information contained in this document is for informational purposes only. It does not constitute an offer of securities and should not be relied upon as financial advice. The information has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person or entity. Before making an investment decision you should consider, with or without the assistance of a financial adviser, whether any investments are appropriate in light of your particular investment needs, objectives and financial circumstances. Neither Hastings, nor any of its related parties including Westpac Banking Corporation ABN 33 007 457 141, guarantees the repayment of capital or performance of any of the entities referred to in this document and past performance is no guarantee of future performance. Hastings, as the Manager or Trustee of various funds, is entitled to receive management and performance fees.

Hastings High Yield Fund

ARSN 112 579 129

Supplementary Explanatory Memorandum in connection with the General Meeting to be held at 10.30am Monday 29 June 2015 at the Vintage Room, the Royal Automobile Club of Australia, Level 5, 89 Macquarie St., SYDNEY 2000.

This is an important document and requires your immediate attention. You should read this supplementary explanatory memorandum 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

General

This Supplementary Explanatory Memorandum is issued by Hastings Funds Management Limited (ABN 27 058 693 388) (**Hastings**), as responsible entity of the Hastings High Yield Fund, ARSN 112 579 129 (**HHY**).

This document is important. You should read it in full, and in conjunction with the Explanatory Memorandum dated 18 May 2015 (**Original Explanatory Memorandum**), before making any decision as to how to vote on the resolutions set out in the notice of meeting dated 18 May 2015. A proxy form for the general meeting was enclosed with the Original Explanatory Memorandum or sent to you separately if you became the registered holder of HHY units after the date of the Original Explanatory Memorandum.

Purpose of this Supplementary Explanatory Memorandum

This Supplementary Explanatory Memorandum provides HHY unit holders with information that is material to your decision on whether or not to vote in favour of the resolutions.

Preparation and responsibility

Other than as set out below, this Supplementary Explanatory Memorandum has been prepared by Hastings.

Greenwoods and Herbert Smith Freehills (**Greenwoods**) has prepared the information under the heading 'Tax Considerations' based on factual information provided by Hastings. Greenwoods is responsible for that section and any statements based on it other than the factual statements provided by Hastings. Greenwoods is not responsible for those statements or any other information contained in this Supplementary Explanatory Memorandum.

Keybridge Capital Limited has prepared the information contained in Annexure A of this Supplementary Explanatory Memorandum and is responsible for the information in Annexure A and any statements based on it. Keybridge Capital Limited is not responsible for any other information contained in this Supplementary Explanatory Memorandum. Except to the extent responsible under law, Hastings does not assume responsibility for the accuracy or completeness of the information contained in Annexure A of this Supplementary Explanatory Memorandum or any statements based on it.

Investment decisions

This Supplementary 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 Supplementary Explanatory Memorandum is not financial product advice. This Supplementary Explanatory Memorandum should not be relied on as the sole basis for any investment decision in relation to your HHY units. 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 Supplementary Explanatory Memorandum in full, and in conjunction with the Original Explanatory Memorandum, before making any decision as to how to vote on the resolutions set out in the Original Explanatory Memorandum.

Forward looking statements

This Supplementary Explanatory Memorandum contains forward looking statements which are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of Hastings to vary materially from those expressed or implied in such forward looking statements.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. None of Hastings or any person named in this Supplementary Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfillment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on those statements. The forward looking statements in this Supplementary Explanatory Memorandum reflect views held only as at the date of this Supplementary Explanatory Memorandum.

Notice to foreign persons

This Supplementary 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.

Date

This Supplementary Explanatory Memorandum is dated 26 May 2015.



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ABN 27 058 693 388
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26 May 2015

Dear HHY Unit Holder

Hastings High Yield Fund (ASX: HHY) – Supplementary Explanatory Memorandum

You will have received a Notice of Meeting and Explanatory Memorandum (**Original Explanatory Memorandum**) inviting you to attend a meeting of unit holders of Hastings High Yield Fund (HHY), at **10.30am on Monday 29 June 2015 at the Royal Automobile Club of Australia, Level 5, 89 Macquarie St., Sydney.**

The resolutions proposed at the general meeting relate to the retirement of Hastings Funds Management Limited (**Hastings**) as responsible entity of HHY and the appointment of Aurora Funds Management Limited (ABN 69 092 626 885) (**Aurora**) as the new responsible entity of HHY, together with a change of name for the fund, if unit holders approve the retirement of Hastings and the appointment of Aurora (**Resolutions**).

In the Original Explanatory Memorandum, we indicated that we would be providing you with supplementary information regarding the more material tax related matters which are relevant to your consideration of the Resolutions.

This Supplementary Explanatory Memorandum sets out the tax implications associated with any distribution of surplus cash to HHY unit holders and the potential change of responsible entity and strategy of HHY. Keybridge Capital Limited has prepared the information that relates to Aurora that is included in Annexure A. **Keybridge Capital Limited is responsible for that information and Hastings does not take any responsibility for it.**

You should read this Supplementary Explanatory Memorandum carefully before deciding how to vote at the general meeting. If you are in doubt as to what action you should take, you should seek financial, tax or other professional advice.

We look forward to your attendance on 29 June 2015.

Yours sincerely,

Alan Cameron AO
Chairman
Hastings Funds Management Limited

Supplementary Explanatory Memorandum

This Supplementary Explanatory Memorandum must be read in conjunction with the Explanatory Memorandum and Notice of Meeting of HHY dated 18 May 2015.

Background

On 25 May 2015, Hastings released the Original Explanatory Memorandum (which included the notice of meeting) in respect of the general meeting of HHY unit holders to be held on 29 June 2015 and requisitioned by a substantial unit holder, Keybridge Capital Limited (**Keybridge**).

HHY unit holders should have now received the Original Explanatory Memorandum.

The Resolutions

The proposed resolutions for consideration by HHY unit holders seek approval to change the responsible entity of HHY from Hastings to Aurora Funds Management Limited (ABN 69 092 626 885) (**Aurora**) and, if those resolutions are approved by unit holders, to change the name of HHY (**Resolutions**).

The Interim Distribution

On 13 May 2015, Hastings stated that it intended to proceed with its previously announced strategy of distributing surplus cash to HHY unit holders. Since then, Hastings has considered further the payment of the interim distribution and received additional advice which is relevant to HHY unit holders in considering the Resolutions.

The additional advice confirmed that the ability of HHY to utilise some or any of the tax losses in the future is uncertain and the possibility that the benefit of any such losses may already be lost. However, the advice also indicated that if an interim distribution was paid, it could adversely affect HHY's ability to use some or all of the tax losses to offset any future gains of HHY, in the event unit holders approve the appointment of Aurora as the new responsible entity of HHY, **subject to the tax considerations set out below**.

Further, the payment of the interim distribution would have occurred during the week prior to the general meeting. Given the close timing of the payment of the distribution and the general meeting, Hastings considers that unit holders ought to determine whether the distribution should be paid to HHY unit holders at the general meeting, (which will happen if Hastings remains as responsible entity) or whether those funds remain as cash in HHY (which is what is expected to happen in the event that Aurora is appointed as responsible entity).

Therefore, by voting in favour of the appointment of Aurora as the new responsible entity of HHY, unit holders will effectively vote to leave the surplus cash in HHY for use by the new responsible entity. By voting against the appointment of Aurora, unit holders will effectively vote in favour of Hastings distributing surplus cash to HHY unit holders and the wind-up of HHY in the near future.

Tax Considerations

1. Tax losses in HHY

As at the date of this Supplementary Explanatory Memorandum, HHY has accumulated approximately \$35.7m of tax losses. The ability of HHY to utilise some or any of the tax losses in the future remains uncertain and the benefit of any such losses may already be lost. Whether those losses would be available to offset future gains of HHY is complex and subject to the particular facts and circumstances and to HHY being able to satisfy the relevant statutory tests.

At a high level, the relevant tax legislation provides that a tax loss cannot be utilised where:

Scenario 1:

- there has been "abnormal trading" in the units of HHY;
- HHY fails the "50% stake test"; and
- HHY fails the "same business test".

Scenario 2:

- There is a scheme to inject assessable income into HHY.

Each tax loss, including a current year loss, must be evaluated against each scenario.

It is unclear whether HHY would be able to utilise its tax losses (including, potentially, current year losses) as Scenario 1 may occur, or may have already occurred, in respect of those tax losses.

In particular:

- abnormal trading may have already occurred as a result of heavy trading in HHY units during the current financial year;
- each time an abnormal trading event occurs, HHY is required to apply the “50% stake test” to its losses. This involves assessing whether there has been a change in 50% of the beneficial holdings in HHY between the start of the income year in which the tax loss was incurred and the end of the abnormal trading;
- if HHY cannot prove that it satisfies the 50% stake test in respect of those losses it must demonstrate that it satisfies the same business test, which means the following matters could be relevant:
 - a delay between the disposal of Hyne Timber and any new investment, even if only of a few months, could result in HHY ceasing to carry on a business, in which case the same business test could be failed at that time; and
 - a change in the responsible entity of HHY, combined with a change in investment strategy, may result in the same business test being failed in any event.

Ultimately, the ability of HHY to utilise the tax losses may depend on events that have occurred to date as well as the activities of HHY and actions of its unit holders up to the time the tax losses have been utilised. For example, the on-market buy-back program proposed by Aurora may constitute “abnormal trading” that requires HHY to subsequently satisfy the 50% stake test or the same business test in order to be able to utilise the tax losses.

In the event that the HHY tax losses are able to be utilised, any potential benefit will only be realised once HHY has sufficient assessable income to utilise the tax losses. Any delay in utilising the tax losses, which may be due to a lack of assessable income generated by HHY, will reduce the present value of the potential benefit of the HHY tax losses.

The potential benefit to each HHY unit holder is dependent on each unit holder’s tax status in relation to the units, cost base and tax rate.

The following is a general summary only for HHY unit holders who are residents of Australia for tax purposes and hold their units on capital account. HHY unit holders should not treat this as advice on their specific tax position and should seek advice, as appropriate, having regard to their own specific circumstances.

A distribution of an amount which has been sheltered from tax by a prior year tax loss is not immediately assessable. However, it will reduce a unit holder’s cost base. Once the unit holder’s cost base is reduced to zero, then the distribution will give rise to a capital gain for the unit holder. The capital gain will be taxed at that unit holder’s marginal tax rate (or offset against the unit holder’s capital losses), except to the extent the tax can be reduced by the ‘CGT discount’ (if applicable).

In general, in order for a unit holder to realise the full benefit from \$35.7m in tax losses (assuming they are available to be used), the unit holder’s cost base must exceed \$0.35 per unit. A unit holder will not realise the full benefit from the HHY losses to the extent that their cost base is less than \$0.35 per unit.

2. Taxation profile of HHY if HHY is not wound up

HHY did not make an election under the relevant provisions and within the time specified in the *Income Tax Assessment Act 1997* (Cth). As a result, assets covered by the relevant provisions of that legislation, including shares in companies and units in trusts, are deemed to be ‘revenue assets’ for the purposes of the tax legislation. This means that any future gains by HHY arising on the disposal of covered assets will be of a revenue nature and will not be “discount capital gains” even if the asset has been held for more than 12 months.

3. Tax implications if HHY wound up

If HHY is wound up, then each HHY unit holder will crystallise a loss on winding up, to the extent that their reduced cost base exceeds the final distribution. Similarly, each HHY unit holder will crystallise a gain on winding up to the extent that the final distribution exceeds their cost base, which may be reduced by the 'CGT discount' (if applicable) after applying any current or prior year capital losses.

In view of this information, HHY unit holders ought to consider the following when deciding on how to vote on the Resolutions:

If Resolutions 1 and 2 are approved, Aurora consents to becoming the responsible entity and Aurora's AFSL is varied:

- it is possible that the tax losses in HHY could be utilised by Aurora as the new responsible entity of HHY. This will depend on a range of facts and circumstances and HHY being able to satisfy the statutory tests applicable at the time, as described above under Tax Considerations; and
- the tax profile of HHY will be as briefly set out at point 2 above.

If Resolutions 1 and 2 are not approved, or Aurora does not consent to becoming the responsible entity, or Aurora's AFSL is not varied:

- Hastings intends to wind up HHY and as a consequence, any tax losses in HHY will not be utilized; and
- the tax implications as briefly described above under point 3 above, will arise.

Annexure A

Aurora Funds Management Limited

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27 May 2015

- **Strategy to preserve and increase value for unit holders.**
- **Proposal to introduce an On-market buyback.**

Dear HHY Unit Holder

Aurora Funds Management Limited ("**Aurora**") is pleased to present unit holders in the Hastings High Yield Fund ("**HHY**" or the "**Fund**") with an alternative strategy to the previously stated plan to liquidate the Fund. This letter is to supplement the information contained in the Explanatory Memorandum circulated by Hastings Funds Management Limited ("**Hastings**") and dated 18 May 2015 (the "**EM**") and should be read in conjunction with that information.

Proposed strategy to maximise unit holder returns

Aurora believes that HHY unit holders will be able to maximise their investment returns if the Fund continues as an investment vehicle. The Aurora management team has the requisite experience to generate returns and deliver greater value for HHY unit holders than what can be achieved through liquidation of the Fund.

Aurora intends to provide its consent to act as responsible entity of the Fund in the event that Hastings does not make the distribution foreshadowed in the 14 April 2015 announcement to HHY unit holders. It is important to Aurora's proposed strategy for the Fund that the distribution of surplus cash not be made as the Fund must be sufficiently capitalised in order to utilize any accumulated tax losses.

Aurora understands that the Fund has accumulated tax losses of approximately \$35.7m. Aurora believes that this could translate into as much as 10 cents per unit of additional value attributable to HHY unit holders (at a 30% tax rate) as part of future investment returns. This potential value would be lost to HHY unit holders were the Fund to be liquidated.

Further, Hastings has indicated that it would retain approximately \$1.5m after a return of capital that it will require to complete the winding up process of the Fund. Indicatively this will result in a total return to investors under the Hastings wind-up proposal in the range of approximately 9.5 – 9.8 cents per unit.

Under Aurora's strategy, the entire (approximately) \$11.5m (11.2 cents per unit) of cash would be invested on behalf of unit holders and any profits generated as investment returns, would not pay tax until the \$35.7m of tax losses have been absorbed providing the opportunity for unit holders to generate significantly higher after tax value from the Fund than under the Hastings wind up scenario.

Proposed on-market buy-back program

If Aurora becomes the responsible entity of the Fund, we presently intend to implement an on-market buy-back program of up to 10% of the issued capital of the Fund, in accordance with the requirements of the Corporations Act and the ASX Listing Rules.

The purpose of the proposed buy-back would be to minimise the gap between the Fund unit price and NTA and provide a mechanism for HHY unit holders that wish to exit their investment the ability to do so on the ASX at a price close to NTA. We believe that the liquidity provided by the buyback will be a superior outcome for unit holders that wish to exit than the alternative option to wind-up the trust.

Further background on the Enforceable Undertaking

In the EM, Hastings has made reference to an Enforceable Undertaking (“**Undertaking**”) granted by Aurora in October 2014 to the Australian Securities and Investments Commission (“**ASIC**”). Enforceable Undertakings are a relatively common tool preferred by ASIC as a constructive solution to prevent certain circumstances from occurring in the future. Details of the Undertaking are available to be reviewed on the public register maintained by ASIC.

The Undertaking relates to certain administrative oversights committed by Aurora when market making ASX-listed funds that it managed during the period between 2007 and 2013. The market making activities were aimed at providing liquidity to unit holders in the ASX-listed funds that it managed and were undertaken to promote the best interests of all unit holders in those funds and any financial benefit gained through the market making was to the benefit of investors. Aurora did not obtain any benefit (direct or indirect) from the market making activities.

Aurora was not fined for these activities and nor did ASIC require ongoing surveillance of Aurora for these activities. Aurora has discontinued the practices in question and remains in compliance with the law in its investment management activities.

If HHY unit holders have any further queries in relation to Aurora, its investment strategies or its plans for HHY, please do not hesitate to call the Aurora client service centre on 1300 553 431 (within Australia) or 0800 447 637 (within New Zealand).

**Aurora recommends unit holders
vote in favour
of the proposal to appoint Aurora as responsible entity for HHY
in order to maximize the value of their investment.**

Corporate directory

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