

**ASX RELEASE**

23 August 2023

**HGV ANNOUNCES APPOINTMENT OF NEW INVESTMENT MANAGER**

**Hygrovest Limited (ASX: HGV) ("HGV", "Hygrovest" or the "Company")** is an Australian-listed specialist investment company which concentrates on producing capital growth for shareholders over the medium term from investments in listed and unlisted equities and debt securities.

**1. HGV appoints HD Capital Partners as Investment Manager**

Hygrovest is pleased to advise that it has executed an Investment Management Agreement ("**IMA**" or "**Agreement**") appointing HD Capital Partners Pty Ltd<sup>1</sup> ("**HD**") to act as Investment Manager of HGV's investment portfolio. The appointment is for a term of five years.

HD is a value-oriented, fundamental bottom-up stock picker focussing on opportunities in listed small cap equities markets that arise from:

- a) undervalued, well-managed growth companies, often founder-led, that are off the radar of the broader investment community;
- b) investments in undervalued securities where HD seeks to realise value; and
- c) investment situations that are dependent on a specific corporate action, such as mergers, liquidations, tender offers and divestments.

HD's appointment follows an invitational tender process and negotiation. HGV's Board expects that HD's appointment will:

- facilitate access to new investment opportunities;
- help HGV to maximise the value of its existing investments; and
- minimise HGV's fixed cost structure.

The HGV Board believes that entering into an IMA is key to transitioning HGV's portfolio from its current concentration in cannabis businesses to a broader range of investment opportunities, primarily in the listed securities sector.

The IMA incentivises HD's performance through remuneration that is amplified upon HD delivering material increases in HGV's net asset value beyond its high water mark. HD's interests are further aligned with those of HGV's shareholders via its Capital H Inception Fund and Capital H Active Fund, which together hold approximately 10.8% of the issued capital of HGV.

A summary of key terms of the IMA with HD is in Appendix One.

Profiles of HD's management team are in Appendix Two.

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<sup>1</sup> HD Capital Partners Pty Ltd (CAR No.001301512) is a Corporate Authorised Representative of SLM Corporate Pty Ltd (AFSL: 224 034).

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## Investor and Media Enquiries

Announcement authorised for release to ASX by:

Jim Hallam

Chief Financial Officer and Company Secretary

E: [Compsec@hygrovest.com.au](mailto:Compsec@hygrovest.com.au)

### **About HGV**

*Hygrovest Limited (ASX: HGV) ("HGV") (ABN 91 601 236 417) is an Australian-listed specialist investment company, which concentrates on producing capital growth for shareholders over the medium term from investments in listed and unlisted equities and debt securities.*

### **Important Notice**

*This announcement contains reference to certain intentions, expectations, future plans, strategy and prospects of HGV. Those intentions, expectations, future plans, strategy and prospects may or may not be achieved. They are based on certain assumptions, which may not be met or on which views may differ and may be affected by known and unknown risks. The performance and operations of HGV may be influenced by a number of factors, many of which are outside the control of HGV. No representation or warranty, express or implied, is made by HGV, or any of its directors, officers, employees, advisers or agents that any intentions, expectations or plans will be achieved either totally or partially or that any particular rate of return will be achieved. Given the risks and uncertainties that may cause HGV's actual future results, performance or achievements to be materially different from those expected, planned or intended, recipients should not place undue reliance on these intentions, expectations, future plans, strategy and prospects. HGV does not warrant or represent that the actual results, performance or achievements will be as expected, planned or intended. Nothing in this material should be construed as either an offer to sell or a solicitation of an offer to buy or sell securities. It does not include all available information and should not be used in isolation as a basis to invest in HGV. This document does not constitute any part of any offer to sell, or the solicitation of an offer to buy, any securities in the United States or to, or for the account or benefit of any "US person" as defined in Regulation S under the US Securities Act of 1993 ("Securities Act"). HGV's shares have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to any US person without being so registered or pursuant to an exemption from registration including an exemption for qualified institutional buyers.*

## APPENDIX ONE

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### SUMMARY OF THE AGREEMENT

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- (a) **(Services)**: HD will provide the Company with the following services:
- Managing the Company's portfolio of investments consistent with the Company's approved investment policy (**Investment Policy**) including sourcing investment opportunities, executing investment acquisitions and divestments.
- (b) **(Term)**: The appointment of HD shall be for a term of five (5) years (**Term**).
- (c) **(Extension)**: There is no right of further extension or renewal. Unless the Term is varied by the parties, the IMA will end on expiry of the Term (if not terminated earlier).
- (d) **(Fees)**: In consideration for HD providing the Services, the Company must pay to HD the Management Fees and the Performance Fees (**Fees**) (defined below).

The Company will pay HD a fee of 1% per annum (plus GST) of the Company's Pre-tax Net Asset Value<sup>2</sup>, calculated on the Pre-tax Net Asset Value at the end of each calendar month. The Pre-tax Net Asset Value, is the total assets of the Company less all liabilities (excluding tax liabilities), which amounts have been prepared in accordance with the requirements of the Corporations Act, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (**Net Asset Value**) (**Management Fees**).

The Company will pay to HD in relation to each financial year a performance fee of 20% (plus GST) of any positive amount resulting from the following calculation:

- (i) the Pre-tax Net Asset Value as at the end of that financial year less the Management Fee for that financial year; less
- (ii) the amount resulting from the following calculation:
- (A) the High Watermark as at the start of that financial year; plus
  - (B) the amount of High Watermark multiplied by the Hurdle Rate from the date that the High Watermark was set; plus
  - (C) the amount of the net proceeds from issue of any securities which are classified as equity in the balance sheet of the Company after the date that the High Watermark in (A) was set multiplied by one plus the Hurdle Rate from date of issuing the securities to that Year End; less
  - (D) the amounts paid by the Company to holders of securities which are classified as equity in the balance sheet of the Company after the date that the High Watermark in (A) was set multiplied by one plus the Hurdle Rate from the date of recording the provision for the distribution in the balance sheet of the Company to that Year End; less
  - (E) the consideration paid by the Company for the buyback of securities classified as equity in the balance sheet of the Company after the date that the High Watermark in (A) was set multiplied by one plus the Hurdle Rate from the date of the buyback of the securities to that Year End; less
  - (F) the value of any other distributions to the Company's shareholders such as in specie after the date that the High Watermark in (A) was set multiplied by one

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<sup>2</sup> Pre Tax Net Asset Value means the value of the total assets of the Company less all liabilities of the Company (the Net Asset Value) plus the book value of realised and unrealised tax liabilities of the Company.

plus the Hurdle Rate from the date of recognising the provision for the distribution in the balance sheet of the Company to that Year End,

**(Performance Fee).**

The Performance Fee, if any, in relation to a financial year will generally be payable in cash within 30 days of the Company issuing to the ASX announcements platform its annual report for the relevant financial year.

**High Watermark** means the highest value of all of the values of the Pre-Tax Net Asset Value calculated for:

- (i) each financial year during the Term; and
- (ii) the financial year immediately preceding the commencement of the Term.

**Hurdle Rate** means 6% per annum.

**(e) (Shares in lieu of Performance Fees):**

- (i) The Company may issue to HD Shares in lieu of cash, in satisfaction of any Performance Fees (**Performance Shares**), subject to the receipt of shareholder approval pursuant to Chapters 7 or 10 of the ASX Listing Rules (as applicable).
- (ii) If any required shareholder approval is not forthcoming, the due date for payment of the relevant Performance Fees shall be deemed deferred until such time as the Company has completed a capital raising (or otherwise raised sufficient funds) that in the opinion of the Board enables the Company to pay the Performance Fees in cash, and in any event up to 12 months from the date set out in clause (d).
- (iii) The deemed issue price of the Performance Shares shall be the 20-trading day VWAP of Shares, as traded on the ASX, for the period ending on the year end of the financial year in relation to which the Performance Fee is payable.
- (iv) The Company agrees to consult with HD prior to seeking to pay Performance Fees by issuing Performance Shares.

**(f) (Investment Proposals):** On and from commencement of the Agreement, HD has discretion to require the Company to acquire or divest securities and may exercise of rights that the Company holds pursuant to security documentation for investments (**Required Investments**) where the proposed investment amount is less than:

- i. \$5,000,000; and
- ii. 20% of the Company's current Net Asset Value; and

subject to the Company confirming to its sole satisfaction that:

- i. the Required Investment complies with the investment strategy;
- ii. the Required Investment does not result in the Company having more than 35% of its then-current Net Asset Value in unlisted investments, excluding those unlisted investments held by the Company at 1 July 2023;
- iii. the Required Investment complies with the applicable law;
- iv. it is satisfied that executing the transaction documentation for the Required Investment is consistent with the Investment Proposal; and

- v. it has and will have the funding necessary to complete the Required Investment taking into account the operating funding and needs of the Company for the 14 months following the completion of the Required Investment.

HD does not have the discretion detailed in clause (f) if a related party of HD holds an interest, directly or indirectly, in the proposed investment.

(g) **(Termination):**

Either party may terminate the Agreement, without cause, by providing six (6) months' written notice.

Where the Agreement is terminated by the Company without cause, the Company shall provide to HD, within 30 days of termination becoming effective:

- i. any outstanding Performance Fee accrued as at the date of termination;
- ii. a payment equal to the Management Fee accrued for the 30 days prior to the date of termination, multiplied by the number of full calendar months from date of termination to expiry of the Term; and
- iii. any GST applicable to clauses (i) and (ii).

Either party may immediately terminate the Agreement at any time by notice to the other party if:

- i. a receiver, receiver and manager, administrator or similar person is appointed with respect to the assets and undertaking of the other party;
- ii. the other party goes into liquidation;
- iii. the other party materially breaches any provision of the Agreement and fails to correct such breach or failure within 30 business days of receiving notice of the breach or failure;
- iv. any representation or warranty made proves to be materially incorrect, untrue or misleading in any and the party at fault fails to rectify the default or breach 15 days after being notified of the default or breach; or
- v. there is a change of control in the other party.

The Company may immediately terminate the IMA at any time by notice to HD if:

- i. any key professional person leaves the employment of HD without the Company's consent; or
- ii. HD ceases to hold the requisite regulatory licences under applicable law to provide the Services.

(h) **(Variation):** The IMA may only be varied or replaced by a document executed by the parties, all material variations will be subject to approval of the shareholders as required by the ASX Listing Rules.

## **APPENDIX TWO**

### **Management of HD Capital Partners Pty Ltd**

#### **Harley Grosser - Co- Chief Investment Officer**

Harley is the Co-Founder of HD Capital Partners, a specialist small cap funds management firm and the manager of the Capital H Inception Fund and Capital H Active Fund. Prior to HD, Harley founded Capital H Management in 2018, which was responsible for managing money on behalf of high net worth individuals and family offices, and was the predecessor firm to HD Capital Partners. Harley has previously worked for Pie Funds and Bligh Capital.

Harley is a Director of HD Capital Partners Pty Ltd, a Non-Executive Director of Motio Ltd (ASX:MXO) and Director of ARC Funds Ltd (ASX:ARC).

Harley has a Bachelor of Commerce from the University of New South Wales.

#### **Daniel Sims - Co- Chief Investment Officer**

Daniel is the Co-Founder of HD Capital Partners and an experienced financier, having worked as a Portfolio Manager at large investment firms and Family Offices in Australia, New Zealand and Germany. His focus has predominantly been on smaller companies in the public and private markets – from initial due diligence through to acquisition, growth strategy and exit.

Daniel is a Director of HD Capital Partners Pty Ltd and a director of ARC Investment Management Pty Ltd.

Daniel has a Bachelor of Commerce from the University of Newcastle.

#### **Eugene Tong - Non-Executive Director**

Eugene is a Partner and Director at SLM Corporate, a Melbourne based independent corporate advisory firm. Eugene has extensive experience in capital markets, corporate transactions, debt & equity raisings and financial analysis of public and private companies.

Eugene was a founding investor in the HD managed funds and is responsible for providing strategic advice and guidance to the HD team.

Eugene has a Bachelor of Commerce and a Master of Financial Management from the University of Melbourne.