

ASX RELEASE

27 June 2014

SFG AUSTRALIA LIMITED
ASX RELEASE
(ASX: SFW)**SCHEME OF ARRANGEMENT**
RELEASE OF THE EXPLANATORY MEMORANDUM

SFG Australia Limited (**SFGA**) announces that the Federal Court of Australia today made orders convening a meeting of SFGA shareholders on 1 August, 2014, to consider and vote on the Scheme of Arrangement (**Scheme**) under which IOOF Holdings Limited proposes to acquire 100% of the ordinary shares in SFGA. The Explanatory Memorandum relating to the Scheme has been registered with the Australian Securities and Investments Commission (**ASIC**).

The SFGA Directors consider that the Scheme is in the best interests of SFGA shareholders and unanimously recommend that SFGA shareholders vote in favour of the Scheme, in the absence of any superior proposal.

SFGA Chairman Mr Peter Promnitz commented: "This is a significant step in the journey of SFGA and is consistent with our strategy of achieving growth through organic growth, tuck-in acquisitions and transformational mergers and acquisitions. In a consolidating sector, your Directors believe that proactively becoming part of a larger ASX-listed company with a highly complementary service offering is consistent with our strategic objective of providing best of breed advice and service to our clients."

The SFGA Directors intend to cause any SFGA shares in which they have a relevant interest to be voted in favour of the Scheme, in the absence of a superior proposal. The Independent Expert, Ernst & Young, has concluded that the Scheme is fair and reasonable, and therefore in the best interests of the SFGA shareholders, in the absence of a superior proposal.

Under the terms of the proposed transaction, SFGA shareholders will be offered 0.104 of an IOOF share for each SFGA share they hold. IOOF is also making available a cash alternative, subject to a maximum cash amount of \$100 million in aggregate. The cash equivalent will be calculated based on the volume weighted average price of IOOF shares over the 10 trading days immediately before the Scheme Meeting.

Explanatory Memorandum

A copy of the Explanatory Memorandum, including the Independent Expert's Report, lodged with ASIC is attached to this announcement. Printed copies of the full Explanatory Memorandum will be mailed to SFGA shareholders in coming days. Shareholders are encouraged to read the document in its entirety.

Scheme Meeting

The Scheme requires the approval of SFGA shareholders and will be considered at the Scheme Meeting to be held at 11.00am on Friday 1 August 2014 at the Radisson Blu Hotel at 27 O'Connell Street, Sydney.

All SFGA shareholders are encouraged to vote either by attending the Scheme Meeting in person, or by lodging a proxy vote by 11.00am on Wednesday 30 July 2014.

Details of how to lodge a proxy vote are included in the Explanatory Memorandum.

Shareholder Information Line

SFGA shareholders who have questions about the Scheme, or the Explanatory Memorandum, can call the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or on +61 1800 425 578 (outside Australia) on business days between 8.30am and 5.30pm (Sydney time).

The Explanatory Memorandum details in full the important dates, however, a summary is provided below:

Key Dates	
Scheme Meeting	Friday 1 August 2014
Second Court Date for approval of the Scheme	Wednesday 6 August 2014
Election Date – last date and time to lodge Election Forms in respect of the Scheme Consideration	Thursday 14 August 2014
Record date for determining entitlements to Scheme Consideration	Friday 15 August 2014
Implementation Date	Wednesday 20 August 2014

This timetable is indicative only. SFGA has the right to vary the timetable set out above subject to the approval of such variation by the Court and the ASX where required. Any variation to the timetable set out above will be announced to the ASX and notified on SFGA's website www.sfgaustralia.com.au.

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About SFG Australia Limited

SFG Australia is a leading non-aligned client focused financial advice and end-to-end wealth management firm, listed on the Australian Securities Exchange (ASX: SFW).

SFG Australia provides a full range of wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration solutions, portfolio construction and management services, insurance (both general and risk) solutions, finance broking, stockbroking, corporate superannuation services, accounting and tax services.



Explanatory Memorandum

for the scheme of arrangement between SFG Australia Limited and its shareholders in relation to a recommended acquisition of 100% of the ordinary shares in SFG Australia Limited by IOOF Holdings Limited.

A Notice of Scheme Meeting is included as Annexure F to this Explanatory Memorandum. A Proxy Form for the Scheme Meeting and an Election Form for the Scheme Consideration accompany this Explanatory Memorandum. The Scheme Meeting will be held at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 at 11.00am (Sydney time) on Friday, 1 August 2014.

VOTE IN FAVOUR

Your Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal

This is an important document and requires your immediate attention. You should read this Explanatory Memorandum in its entirety prior to deciding whether or not to vote in favour of the Scheme. If you are in any doubt as to what you should do, please consult your legal or financial advisor immediately. If you have recently sold all of your SFGA Shares, please ignore this Explanatory Memorandum.

If you have any questions in relation to this Explanatory Memorandum or the Scheme you should call the SFGA Shareholder Information Line:

1800 425 578 (within Australia)
+61 1800 425 578 (outside Australia)

Business Days between 8.30am and 5.30pm (Sydney time).

SFG Australia Limited ABN 81 006 490 259

Financial Advisor to SFGA

Merrill Lynch 

Legal Advisor to SFGA

CLAYTON UTZ

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If you have any questions in relation to this Explanatory Memorandum or the Scheme you should call the SFGA Shareholder Information Line:

1800 425 578 (within Australia)

+61 1800 425 578 (outside Australia)

Business Days between 8.30am and 5.30pm (Sydney time).

Important Dates

First Court Date for approval of this Explanatory Memorandum	Friday, 27 June 2014
First day of the IOOF VWAP Period	Friday, 18 July 2014
Latest time and date for receipt of proxy forms for Scheme Meeting	11.00am on Wednesday, 30 July 2014
Date for determining eligibility to vote at the Scheme Meeting	7.00pm on Wednesday, 30 July 2014
Last day of the IOOF VWAP Period	Thursday, 31 July 2014
Scheme Meeting	11.00am on Friday, 1 August 2014
Second Court Date	Wednesday, 6 August 2014
Effective Date	Wednesday, 6 August 2014
Last date SFGA Shares will trade on ASX	Wednesday, 6 August 2014
New IOOF Shares commence trading on a deferred settlement basis	Thursday, 7 August 2014
Election Date – last time and date to lodge Election Forms	5.00pm on Thursday, 14 August 2014
Record Date – time and date for determining entitlements to Scheme Consideration	5.00pm on Friday, 15 August 2014
Implementation Date – transfer of SFGA Shares to IOOF	Wednesday, 20 August 2014
Payment of the Scheme Consideration and issue of New IOOF Shares	Wednesday, 20 August 2014
Despatch of statements confirming the allotment of New IOOF Shares	Wednesday, 20 August 2014
Last day of deferred settlement trading for New IOOF Shares	Wednesday, 20 August 2014
New IOOF Shares commence trading on a normal settlement basis on the ASX	Thursday, 21 August 2014

Note

All dates and times are references to the time in Sydney, Australia, unless otherwise stated. This timetable is indicative only. SFGA has the right to vary the timetable set out above subject to the approval of such variation by the Court and the ASX where required. Any variation to the timetable set out above will be announced to the ASX and notified on SFGA's website www.sfgaustralia.com.au.

Important Notices

This Explanatory Memorandum contains important information

This Explanatory Memorandum is the explanatory statement required to be sent to SFGA Shareholders under Part 5.1 of the Corporations Act in relation to the Scheme.

The purpose of this Explanatory Memorandum is to explain the terms of the Scheme and the manner in which the Scheme will be considered and Implemented (if approved by the Requisite Majorities of SFGA Shareholders and by the Court) and to provide information as is prescribed or otherwise material to the decision of SFGA Shareholders whether or not to vote in favour of the Scheme.

You should read this Explanatory Memorandum in its entirety before making a decision as to how to vote.

Status of the Explanatory Memorandum

This Explanatory Memorandum is not a disclosure document required by Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1) of the Corporations Act. Instead, SFGA Shareholders asked to vote on an arrangement at such a meeting must be provided with an explanatory statement as referred to above.

Responsibility for information

The SFGA Information has been prepared by SFGA and is the responsibility of SFGA. Neither IOOF nor any of the IOOF Directors, its officers or advisors assume any responsibility for the accuracy or completeness of the SFGA Information.

The IOOF Information has been provided by IOOF and is the responsibility of IOOF. Neither SFGA nor any of the SFGA Directors, its officers or advisors assume any responsibility for the accuracy or completeness of the IOOF Information.

EY has prepared the Independent Expert's Report in relation to the Scheme contained in Annexure A of this Explanatory Memorandum and takes responsibility for that report.

KPMG Transaction Services has been engaged by IOOF to prepare the Investigating Accountant's Report as set out in Annexure B of this Explanatory Memorandum in relation to the compilation of the Pro Forma Historical Financial Information contained in section 6 of this Explanatory Memorandum and takes responsibility for that report.

Clayton Utz has prepared the information on the taxation implications of the Scheme contained in section 8 of this Explanatory Memorandum and takes responsibility for that information.

ASIC, ASX and the Court

A copy of this Explanatory Memorandum has been provided to ASIC for the purpose of section 411(2) of the Corporations Act and registered by ASIC for the purpose of section 412(6) of the Corporations Act.

ASIC has reviewed a copy of this Explanatory Memorandum. SFGA has asked ASIC to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court at the time of the hearing on the Second Court Date.

A copy of this Explanatory Memorandum has been lodged with the ASX.

Neither ASIC nor the ASX nor any of their respective officers take any responsibility for the contents of this Explanatory Memorandum.

Important notice associated with Court order under section 411(1) of the Corporations Act

The Court has ordered the convening of the Scheme Meeting pursuant to section 411(1) of the Corporations Act. The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved the Explanatory Memorandum does not mean that the Court:

- a) has formed any view as to the merits of the proposed Scheme or as to how SFGA Shareholders should vote (on this matter SFGA Shareholders must reach their own decision); or
- b) has prepared, or is responsible for, the content of the Explanatory Memorandum.

No investment advice

The information contained in this Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation, taxation position and particular needs of individual SFGA Shareholders. The information in this Explanatory Memorandum should not be relied upon as the sole basis for any investment decision in relation to the Scheme or the SFGA Shares. It is important that you consider the information in this Explanatory Memorandum in light of your particular circumstances. You should seek your own independent financial, taxation or other professional advice before making any decision regarding the Scheme.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of SFGA or IOOF to be materially different from future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general economic conditions, exchange rates, interest rates, the regulatory environment, competitive pressures, selling prices and market demand.

None of SFGA, the SFGA Directors or its officers or advisor, IOOF, the IOOF Directors or its officers or advisors, or any other person gives any representation, assurance or guarantee that the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur. You are cautioned about placing undue reliance on any such forward looking statements. The forward looking statements in this Explanatory Memorandum reflect views held only at the date of this Explanatory Memorandum. Additionally, statements of the intentions of IOOF reflect its present intentions as at the date of this Explanatory Memorandum and may be subject to change.

Subject to any continuing obligations under law or the ASX Listing Rules, SFGA and the SFGA Directors and officers disclaim any obligation or undertaking to disseminate after the date of this Explanatory Memorandum any updates or revisions to any forward looking statements to reflect any

Important Notices

change in expectations in relation to those statements or change in events, conditions or circumstances on which any such statement is based other than to comply with legal obligations or the ASX Listing Rules.

Overseas shareholders

Ineligible Overseas Shareholders may not be entitled to receive New IOOF Shares pursuant to the Scheme and should refer to section 3.5(m) of this Explanatory Memorandum in respect of the consideration that they will receive if the Scheme is Implemented.

This Explanatory Memorandum is subject to Australian disclosure requirements. Financial information in this Explanatory Memorandum has been prepared in accordance with AIFRS and is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

Australian disclosure requirements and AIFRS may be different from those applicable in other jurisdictions.

This Explanatory Memorandum does not in any way constitute an offer to sell, or a solicitation of an offer to buy, any securities in IOOF or SFGA in any place where an offer or solicitation would be illegal.

Tax implications of the Scheme

Section 8 of this Explanatory Memorandum provides a general outline of the Australian tax consequences for SFGA Shareholders who dispose of their SFGA Shares to IOOF in accordance with the Scheme. It does not purport to be a complete analysis or to identify all potential tax consequences nor is it intended to replace the need for specialist tax advice in respect of the particular circumstances of individual Scheme Shareholders.

SFGA Shareholders who are subject to taxation outside Australia should also consult their tax advisor as to the applicable tax consequences of the Scheme in the relevant jurisdiction.

Privacy and personal information

SFGA and IOOF and their agents and representatives may collect personal information in the process of implementing the Scheme. The personal information may include the names, addresses, other contact details, bank account details and details of the shareholdings of SFGA Shareholders, and the names of individuals appointed by SFGA Shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of collecting this information is to assist SFGA and IOOF to conduct the Scheme Meeting and to implement the Scheme. Personal information of the type described above may be disclosed to the SFGA Share Registry and the IOOF Share Registry, print and mail service providers, authorised securities brokers and Related Bodies Corporate of SFGA and IOOF. If the information outlined above is not collected, SFGA may be hindered in, or prevented from, conducting the Scheme Meeting and Implementing the Scheme.

SFGA Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them.

Such individuals who wish to exercise these rights should contact the SFGA Share Registry by email to privacy@computershare.com.au, or in writing to The Privacy Officer, Computershare Investor Services Pty Limited, "Yarra Falls", 452 Johnson Street, Abbotsford VIC 3067.

SFGA Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should inform such an individual of the matters outlined above.

Notice of Scheme Meeting

The Notice of Scheme Meeting is set out in Annexure F.

Interpretation

Capitalised terms and certain abbreviations used in this Explanatory Memorandum have the defined meanings set out in the Glossary in section 10 of this Explanatory Memorandum.

Each of the documents reproduced in some of the annexures to this Explanatory Memorandum has its own defined terms, which are sometimes different from those in the Glossary.

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the last practicable date prior to the date of this Explanatory Memorandum.

Figures, amounts, percentages, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Memorandum.

All references to times in this Explanatory Memorandum are references to time in Sydney, Australia, unless otherwise stated. All dates in the timetable are indicative only.

The financial amounts in this Explanatory Memorandum are expressed in Australian currency unless otherwise stated. A reference to \$, A\$ and AUD and cents is to Australian currency, unless otherwise stated.

No internet site is part of this Explanatory Memorandum

The contents of SFGA's and IOOF's and their Subsidiaries' websites do not form part of this Explanatory Memorandum and SFGA Shareholders should not rely on information of a general nature contained on those websites (i.e. information which is not specifically related to the Scheme) in relation to making any decision in respect of the Scheme.

Date of Explanatory Memorandum

This Explanatory Memorandum is dated 27 June 2014.

Supplementary information about the Scheme

SFGA Shareholders who have any questions or require further information about the Scheme should contact the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or +61 1800 425 578 (outside Australia) on Business Days between 8.30am and 5.30pm. SFGA Shareholders should seek independent financial, taxation or other professional advice before making any decision regarding the Scheme.

In certain circumstances, SFGA may provide additional disclosure to SFGA Shareholders in relation to the Scheme after the date of this Explanatory Memorandum. To the extent applicable, SFGA Shareholders should have regard to any such supplemental information in determining how to vote in relation to the Scheme.

Dear SFGA Shareholder,

I am pleased to enclose the details of IOOF Holdings Limited's (**IOOF**) proposal (**IOOF Proposal**) to acquire your shares in SFG Australia Limited (**SFGA**).

Your Directors consider that the IOOF Proposal is in the best interests of SFGA Shareholders and unanimously recommend that you vote in favour of the Scheme, in the absence of any Superior Proposal.

Background on the IOOF Proposal

As you may be aware, SFGA announced on Friday 16 May 2014 that it had entered into a Scheme Implementation Agreement with IOOF to implement a proposal for IOOF to acquire all of the ordinary shares in SFGA by way of a Scheme of Arrangement.

If the Scheme is implemented, SFGA Shareholders will receive as Scheme Consideration either:

- a) 0.104¹ New IOOF Shares for each SFGA Share (**Share Consideration**); or
- b) a cash alternative, which may be entirely cash or a combination of cash and New IOOF Shares, depending on the elections made by other Scheme Shareholders (**Maximum Cash Consideration**)².

Implied value and premium of the IOOF Proposal

The Scheme Consideration represents a substantial premium over historical trading prices for SFGA Shares. The Scheme Consideration represents an implied valuation multiple of 18.5x³ SFGA's underlying net profit after tax for the 12 months ended 31 December 2013 and an implied value and corresponding premium per SFGA Share of:

- > \$0.90 and 24.6%, based on each of SFGA's and IOOF's 90 day volume weighted average prices (**VWAP**) immediately prior to announcement;
- > \$0.88 and 21.6%, based on each of SFGA's and IOOF's 60 day VWAPs immediately prior to announcement;
- > \$0.87 and 19.8%, based on each of SFGA's and IOOF's 30 day VWAPs immediately prior to announcement;
- > \$0.85 and 15.8%, based on each of SFGA's and IOOF's closing prices immediately prior to announcement; and
- > \$0.88, based on each of SFGA's and IOOF's closing prices on 25 June 2014 (being the last practicable Trading Day prior to the date of the Explanatory Memorandum).

You will also be entitled to receive the final IOOF dividend for the year ending 30 June 2014 (**IOOF FY14 Dividend**) provided the Implementation of the Scheme occurs prior to the record date for the IOOF FY14 Dividend, as is currently anticipated (and provided you still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend). If Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend, your Directors have the discretion (and would, in those circumstances, intend) to declare and pay the SFGA FY14 Dividend and the SFGA Special Dividend which together will equal the amount shareholders would have received had implementation of the Scheme occurred prior to the record date for the IOOF FY14 Dividend.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

2) IOOF has agreed to make a maximum of \$100 million cash available to pay to SFGA Shareholders who Elect to receive Maximum Cash Consideration. SFGA Shareholders Electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

3) Based on IOOF's 90 day VWAP to 15 May 2014.

Letter from the SFGA Chairman

The Scheme Consideration also provides you with an opportunity to realise value for your SFGA Shares that may otherwise be difficult given the low volume of SFGA Shares traded on the ASX.

SFGA Directors' Recommendation

Your Directors consider that the IOOF Proposal is in the best interests of SFGA Shareholders and unanimously recommend that you vote in favour of the Scheme, in the absence of any Superior Proposal. Should any Superior Proposal be received, your Directors will, consistent with their fiduciary duties, consider the merits of any such proposal and advise you accordingly.

Your Directors intend to cause any SFGA Shares in which they have a Relevant Interest to be voted in favour of the Scheme in the absence of a Superior Proposal.

Your Directors acknowledge the merits of consolidation in the financial services industry and recognise that a combination of IOOF and SFGA has the potential to create significant value for SFGA Shareholders and also to provide benefits for clients of the Combined Group, such as access to additional products and services.

This is a significant step in the journey of SFGA and is consistent with the Company's strategy of achieving growth through organic growth, tuck-in acquisitions and transformational mergers and acquisitions. In a consolidating sector, your Directors believe that proactively becoming part of a larger ASX-listed company with a highly complementary service offering is consistent with our strategic objective of providing "best of breed" advice and service to our clients. A larger Combined Group will have the scale and competitive advantage to offer a wider range of products and services for our clients in future years. In an environment of increasing regulation and cost pressures, your Directors also recognise the benefits of improved diversification of revenue and profit.

Full details of the key reasons for your Directors' recommendation of the Scheme are set out in section 2 of this Explanatory Memorandum. As with all transactions of this nature, the Scheme also has disadvantages and risks, and these are set out in sections 2 and 7 of this Explanatory Memorandum.

Opinion of the Independent Expert

The SFGA Directors have commissioned EY to prepare an Independent Expert's Report on the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of SFGA Shareholders, in the absence of a Superior Proposal. The full report of the Independent Expert is set out in Annexure A of this Explanatory Memorandum.

Scheme Meeting

The Scheme can only be implemented if it is approved by the Requisite Majorities of SFGA Shareholders at the Scheme Meeting, and the Court.

The Scheme Meeting will commence at 11.00am (Sydney time) on Friday, 1 August 2014 at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000.

If you are unable to attend the Scheme Meeting on this day, I encourage you to vote by completing the enclosed personalised Proxy Form for the Scheme Meeting and returning it to the SFGA Share Registry so that it is received no later than 11.00am (Sydney time) on Wednesday, 30 July 2014.

Your vote is important in determining whether or not the Scheme proceeds. If the Scheme is not approved at the Scheme Meeting by the Requisite Majorities, the Scheme will not be implemented and you will not receive the Scheme Consideration. In those circumstances and assuming all other things remain unchanged, the SFGA share price may potentially fall to a level at or below where SFGA Shares traded in the time leading up to the IOOF Proposal. This risk may also be impacted by equity market volatility.

Further Information

Further information in relation to the Scheme is contained in this Explanatory Memorandum, including reasons for your Directors' recommendation to vote in favour of the Scheme. I encourage you to read this Explanatory Memorandum in full before making your decision and voting at the Scheme Meeting. If you have any questions in relation to any part of the Scheme, please call the SFGA Shareholder Information Line on 1800 425 578 (from within Australia) or +61 1800 425 578 (from outside Australia) on weekdays between 8.30am and 5.30pm (Sydney time). You should also seek your own independent professional advice.

On behalf of your Directors, I would like to take this opportunity to thank you again for your ongoing support of SFGA. Your Directors believe that the proposed transaction with IOOF makes strong commercial and strategic sense and is in the best interests of SFGA Shareholders. I look forward to your participation in the Scheme Meeting.

Yours sincerely



Peter Promnitz

Chairman

SFG Australia Limited

Dear SFGA Shareholder,

The IOOF Board and management of IOOF are pleased to provide you with the opportunity to participate in the merger of SFGA and IOOF through a Scheme of Arrangement which will create a powerful new force in the financial services marketplace.

The combination of SFGA's strengths, particularly through its high quality and awarded adviser network, and those of IOOF will allow the Combined Group to capture significantly increased revenue across the value chain including advice, portfolio administration, accounting, insurance, SMSF administration and investment management.

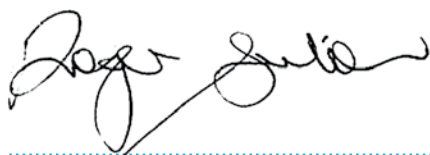
IOOF has an established track record in delivering enhanced shareholder wealth through the successful integration of aligned businesses. Given the highly complementary nature of SFGA and IOOF, a merger will deliver a combined business which will be ranked the third largest in Australia in terms of "funds under advice" and one of the largest wealth management businesses in Australia.

The combination of SFGA and IOOF is unanimously supported by the SFGA Board which recommends that the SFGA Shareholders vote in favour of the Scheme, in the absence of any Superior Proposal. The SFGA Board has also advised that they intend to cause any SFGA Shares in which they have a Relevant Interest to be voted in favour of the Scheme, in the absence of any Superior Proposal.

As a SFGA Shareholder, your vote is extremely important in order to ensure that the merger is Implemented, unlocking benefits for both IOOF Shareholders and SFGA Shareholders.

On behalf of the IOOF Board, I encourage you to vote in favour of the Scheme and look forward to welcoming you as an IOOF Shareholder.

Yours sincerely



Dr Roger Sexton AM

Chairman

IOOF Holdings Limited

Summary of matters relevant to your vote on the Scheme

What is the Proposal?

The IOOF Proposal involves IOOF acquiring 100% of SFGA Shares and will be Implemented by way of a Scheme of Arrangement.

Following Implementation of the Scheme, IOOF will be the sole shareholder of SFGA.

What will I receive if the Scheme is Implemented?

If the Scheme is Implemented, you will receive either:

- > 0.104¹ New IOOF Shares for each SFGA Share (**Share Consideration**); or
- > if you so Elect, the alternative consideration described below, which may be entirely cash or a combination of cash and New IOOF Shares, depending on the Elections made by other SFGA Shareholders (**Maximum Cash Consideration**).

What will I receive if I Elect Share Consideration or make no Election at all?

If you Elect Share Consideration or make no Election at all, and the Scheme is Implemented, you will receive 0.104¹ New IOOF Shares for each SFGA Share.

What will I receive if I Elect Maximum Cash Consideration?

IOOF has agreed to make a maximum of \$100 million cash available to pay to Scheme Shareholders who Elect to receive Maximum Cash Consideration. If you Elect to receive Maximum Cash Consideration, you will receive your entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case, the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

Assuming no scale back, if you Elect to receive Maximum Cash Consideration you will receive a cash amount for each SFGA Share equal to 0.104¹ multiplied by the IOOF VWAP.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

Summary of matters relevant to your vote on the Scheme

Example of cash received if no scale back, assuming 1,000 SFGA Shares

Number of SFGA Shares you own	1,000
<i>Multiplied by IOOF VWP of \$8.65¹</i>	\$8.65
<i>Multiplied by exchange ratio of 0.104² New IOOF Shares for each SFGA Share</i>	0.104 ²
Amount of cash you would receive if no scale back	\$899.60

If the amount of Maximum Cash Consideration is required to be scaled back then you will also receive New IOOF Shares for the balance of any Scheme Consideration not paid in cash. The example below is illustrative of the cash and New IOOF Shares you would receive in such a scenario assuming you hold 1,000 SFGA Shares and a scale back is required.

Example of cash received if scale back, assuming 1,000 SFGA Shares

Total amount of cash available to be paid to Scheme Shareholders	\$100m
Aggregate of all Maximum Cash Consideration elections received from SFGA Shareholders	\$250m
Percentage of Scheme Consideration to be received in cash	40%
Number of SFGA Shares you own	1,000
<i>Multiplied by IOOF VWP of \$8.65¹</i>	\$8.65
<i>Multiplied by exchange ratio of 0.104² New IOOF Shares for each SFGA Share</i>	0.104 ²
Total Scheme Consideration you are entitled to receive	\$899.60
<i>Multiplied by percentage of Scheme Consideration paid in cash following scale back</i>	40%
Amount of cash you would receive after scale back	\$359.84
Remaining Scheme Consideration to be paid in New IOOF Shares	\$539.76
<i>Divided by IOOF VWP of \$8.65¹</i>	\$8.65
Number of New IOOF Shares you would receive after scale back and rounding of fractional entitlements³	62.0

How do I vote on the Scheme?

In order for the Scheme to be Implemented, a resolution approving the Scheme (**Scheme Resolution**) must be passed by SFGA Shareholders by the Requisite Majorities being:

- > a majority in number of SFGA Shareholders present and voting at the Scheme Meeting (in person, by proxy or by corporate representative or attorney); and
- > at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by corporate representative or attorney), at the Scheme Meeting.

The Scheme is also subject to the satisfaction or waiver of the Conditions Precedent (as applicable) as summarised in section 3.4(a) of this Explanatory Memorandum and set out in full in clause 3 of the Scheme Implementation Agreement (a copy of which forms Annexure C of this Explanatory Memorandum), and approval by the Court.

1) For illustrative example only. The IOOF VWP will be calculated over the 10 Trading Days immediately preceding the date of the Scheme Meeting.

2) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

3) 62.4 New IOOF Shares rounded down to 62 New IOOF Shares. Refer to section 3.2(d) of this Explanatory Memorandum for details of treatment of fractional entitlements.

Summary of matters relevant to your vote on the Scheme

How do I vote on the Scheme? *(continued)*

If you are registered on the SFGA Share Register at 7.00pm on Wednesday, 30 July 2014 you are entitled to vote on the Scheme Resolution. You can vote by:

- > attending the Scheme Meeting in person or by attorney or, in the case of corporate shareholders, by corporate representative, at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 at 11.00am on Friday, 1 August 2014;
- > mailing the enclosed Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited, GPO Box 1282, Melbourne VIC 3001, Australia (using the reply paid envelope provided);
- > hand delivering the enclosed Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited, "Yarra Falls", 452 Johnston Street, Abbotsford VIC 3067;
- > faxing the enclosed Proxy Form to the SFGA Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
- > lodging a proxy online with the SFGA Share Registry via www.investorvote.com.au.

To be valid, a proxy must be received by the SFGA Share Registry by 11.00am on Wednesday, 30 July 2014. If you complete and return a Proxy Form, you may still attend the Scheme Meeting in person, revoke the proxy and vote at the Scheme Meeting.

Further details on how to vote are set out in section 3.10 of this Explanatory Memorandum.

What should I do?

Before making any decision on how to vote on the Scheme Resolution, you should read this Explanatory Memorandum carefully in its entirety, including the reasons to vote in favour or against the Scheme set out in section 2 of this Explanatory Memorandum.

Answers to various frequently asked questions about the Scheme are set out section 1 of this Explanatory Memorandum. If you have any additional questions in relation to this Explanatory Memorandum or the Scheme please consult your financial, legal, or other professional advisor or call the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or +61 1800 425 578 (outside Australia) on Business Days between 8.30am and 5.30pm.

How do I make an Election in relation to the Scheme Consideration?

You may Elect to receive your Scheme Consideration as either:

- > 0.104¹ New IOOF Shares for each SFGA Share (**Share Consideration**); or
- > a cash alternative, which may be entirely cash or a combination of cash and New IOOF Shares, depending on the Elections made by other Scheme Shareholders (**Maximum Cash Consideration**)².

You can Elect the form of Scheme Consideration that you would prefer to receive by completing the enclosed Election Form and returning it to one of the addresses stated in the "How do I vote on the Scheme" section above in accordance with the instructions on the Election Form so that it is received by SFGA Share Registry prior to 5.00pm on the Election Date (Thursday, 14 August 2014).

If no Election is made, or an Election is invalid, or it is received after the Election Date, you will be deemed to have Elected to receive your Scheme Consideration as Share Consideration.

See section 3.2(b) of this Explanatory Memorandum for further information on Election of Scheme Consideration.

What is the SFGA Directors' recommendation?

The SFGA Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.

The SFGA Directors intend to cause any SFGA Shares in which they have a Relevant Interest to be voted in favour of the Scheme in the absence of a Superior Proposal.

The SFGA Directors believe that the reasons for you to vote in favour of the Scheme Resolution outweigh the reasons to vote against it, in the absence of a Superior Proposal. These reasons and other relevant considerations are set out in section 2 of this Explanatory Memorandum.

In addition, the Independent Expert has concluded that the Scheme is fair and reasonable, and in the best interests of SFGA Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the underlying value of SFGA to be in the range of \$0.85 to \$0.95 per SFGA Share (on a control basis). The Independent Expert states that the implied value of the Scheme Consideration, being in the range of \$0.84 to \$0.88 is consistent with the valuation range, and therefore the Scheme is fair and reasonable.

You should also read the Independent Expert's Report which is set out in Annexure A of this Explanatory Memorandum.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

2) IOOF has agreed to make a maximum of \$100 million cash available to pay to Scheme Shareholders who Elect to receive Maximum Cash Consideration. SFGA Shareholders Electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

Summary of matters relevant to your vote on the Scheme

Reasons why you may want to vote in favour of the Scheme

- ✓ The SFGA Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal
- ✓ The Independent Expert has concluded that the Scheme is fair and reasonable, and in the best interests of SFGA Shareholders in the absence of a Superior Proposal
- ✓ No Superior Proposal has emerged since SFGA entered into the Scheme Implementation Agreement with IOOF
- ✓ The implied value of the Scheme Consideration provides a substantial premium compared to historical SFGA Share prices
- ✓ Scheme Shareholders can Elect to receive the Scheme Consideration as either New IOOF Shares or the cash alternative (which may be entirely cash or a combination of cash and New IOOF Shares depending on the Elections of other Scheme Shareholders)
- ✓ Scheme Shareholders who receive New IOOF Shares as consideration will be entitled to receive any IOOF FY14 Dividend if the Scheme is Implemented prior to the record date for any IOOF FY14 Dividend¹ (provided they still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend)
- ✓ Scheme Shareholders who receive New IOOF Shares will have the opportunity to participate in the strategic and financial benefits of the Combined Group
- ✓ Scheme Shareholders who receive New IOOF Shares are expected to benefit from greater trading volumes in IOOF Shares on the ASX relative to SFGA Shares
- ✓ Scheme Shareholders who receive New IOOF Shares may be eligible for CGT rollover relief
- ✓ If the Scheme does not proceed, the SFGA Share price may potentially fall to a level around where SFGA Shares traded in the time leading up to the IOOF Proposal
- ✓ There are no brokerage or transfer costs on the disposal of SFGA Shares or the receipt of New IOOF Shares under the Scheme

Reasons to vote in favour of the Scheme are set out in more detail in section 2.1 of this Explanatory Memorandum.

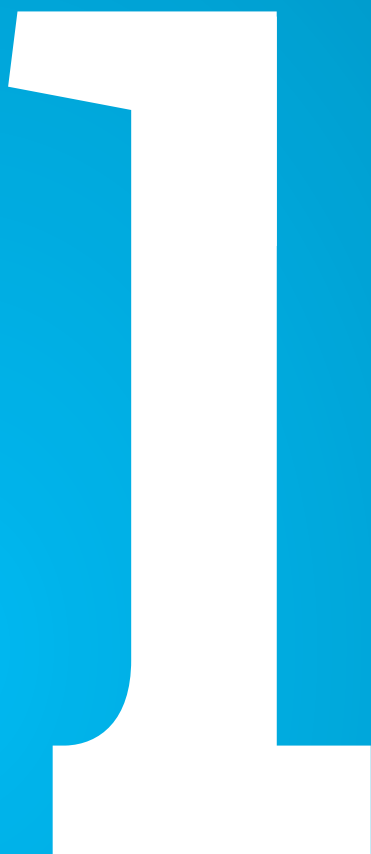
Reasons why you may not want to vote in favour of the Scheme

- ✗ You may disagree with the SFGA Directors' recommendation or the Independent Expert's conclusion
- ✗ You may consider that there is the potential for a Superior Proposal to be made in relation to SFGA in the foreseeable future
- ✗ The value of the Scheme Consideration will be dependent on the market value of IOOF Shares. The value of the Scheme Consideration you ultimately receive may be lower than the value calculated as of or before the date of this Explanatory Memorandum
- ✗ You may not want to own IOOF Shares (which you may receive even if you Elect to receive your Scheme Consideration as Maximum Cash Consideration and you are scaled back)
- ✗ The tax consequences of the Scheme may not be optimal for your individual financial position

Reasons why you may not want to vote in favour of the Scheme are set out in more detail in section 2.2 of this Explanatory Memorandum.

¹ If Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend, the SFGA Directors have the discretion (and would, in those circumstances, intend) to declare and pay the SFGA FY14 Dividend and the SFGA Special Dividend which together will equal the amount Scheme Shareholders would have received had implementation of the Scheme occurred prior to the record date for the IOOF FY14 Dividend.

Frequently asked questions



This Explanatory Memorandum contains detailed information regarding the Scheme. This section provides summary answers to some questions you may have and will assist you to locate further detailed information in this Explanatory Memorandum.

Question	Answer
What is the Scheme?	<p>On 16 May 2014, SFGA and IOOF announced that they had entered into a Scheme Implementation Agreement under which it is proposed that IOOF will acquire all of the SFGA Shares and, as a result, SFGA will become a wholly owned Subsidiary of IOOF and applications will be made to the ASX for termination of official quotation of the SFGA Shares on the ASX and the removal of SFGA from the official list of the ASX.</p> <p>The acquisition will be implemented by way of a Scheme of Arrangement under which Scheme Shareholders may Elect to receive their Scheme Consideration as follows:</p> <ul style="list-style-type: none"> > New IOOF Shares only (Share Consideration); or > a cash alternative which may be entirely cash or a combination of cash and New IOOF Shares depending on Elections made by other Scheme Shareholders (Maximum Cash Consideration). <p>Section 3 of this Explanatory Memorandum contains a summary of the Scheme (including the conditions to which the Scheme is subject) and its effect.</p>
What is a Scheme of Arrangement?	<p>A Scheme of Arrangement is a means of implementing an acquisition of shares under the Corporations Act. It requires a vote in favour of the Scheme Resolution by Requisite Majorities of shareholders at the Scheme Meeting and also requires Court approval.</p> <p>A detailed description of the Scheme is set out in section 3 of this Explanatory Memorandum. The terms of the Scheme are set out in full in Annexure D of this Explanatory Memorandum.</p>
Is the Scheme subject to any conditions?	<p>Implementation of the Scheme is subject to a number of Conditions Precedent being satisfied or waived, including:</p> <ul style="list-style-type: none"> > approval of the Scheme by SFGA Shareholders and the Court; > no SFGA Material Adverse Change or IOOF Material Adverse Change occurs prior to the Second Court Date; > no SFGA Prescribed Occurrence or IOOF Prescribed Occurrence occurs prior to the Second Court Date; > the SFGA Warranties and the IOOF Warranties being true and correct, or true and correct in all material respects (as applicable) prior to the Second Court Date; and > all outstanding Performance Rights issued by SFGA vest and convert into SFGA Shares, or are cancelled or agreed to be acquired or cancelled. <p>All of the Conditions Precedent are summarised in section 3.4(a) of this Explanatory Memorandum and are set out in full in the Scheme Implementation Agreement (a copy of which forms Annexure C of this Explanatory Memorandum).</p>
Who is IOOF?	<p>IOOF is an ASX-listed, top 100 company with a market capitalisation of \$1.96 billion¹. Since its origins in 1846, the IOOF Group has grown to become a leading provider of financial services, with approximately \$123.9 billion in FUMAS, and approximately 655,000 customers.</p>

1) Based on the closing price of \$8.44 of IOOF Shares on 25 June 2014 (being the last practicable Trading Day prior to the date of this Explanatory Memorandum).

Recommendations

What do the SFGA Directors recommend?

The SFGA Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme Resolution. The SFGA Directors unanimously believe that, for the reasons set out in section 2.1 of this Explanatory Memorandum, the Scheme is in the best interests of SFGA Shareholders, in the absence of a Superior Proposal.

How do the SFGA Directors intend to vote?

Each of the SFGA Directors who holds or controls SFGA Shares intends to vote in favour of the Scheme Resolution, in the absence of a Superior Proposal.

What is the Independent Expert's conclusion?

The SFGA Directors have engaged EY as the Independent Expert to provide a report on the Scheme.

The Independent Expert has concluded that the Scheme is fair and reasonable, and in the best interests of SFGA Shareholders in the absence of a Superior Proposal.

The Independent Expert has assessed the underlying value of SFGA to be in the range of \$0.85 to \$0.95 per SFGA Share (on a control basis). The Independent Expert states that the implied value of the Scheme Consideration, being in the range of \$0.84 to \$0.88 is consistent with the valuation range, and therefore the Scheme is fair and reasonable.

The complete Independent Expert's Report is included in Annexure A of this Explanatory Memorandum. You are encouraged to read it.

What are the reasons to vote in favour of the Scheme?

The reasons to vote in favour of the Scheme are set out in section 2.1 of this Explanatory Memorandum.

What are the possible reasons not to vote in favour of the Scheme?

The possible reasons not to vote in favour of the Scheme are set out in section 2.2 of this Explanatory Memorandum.

What are the prospects of receiving a Superior Proposal?

Since the announcement of SFGA and IOOF entering into the Scheme Implementation Agreement on Friday, 16 May 2014, no Superior Proposal has emerged.

The SFGA Directors have no basis for believing that a Superior Proposal will be forthcoming. SFGA Shareholders should note that SFGA has agreed to certain exclusivity and break fee provisions in favour of IOOF, which are detailed in section 3.4 of this Explanatory Memorandum.

What should I do?

You should carefully read this Explanatory Memorandum in its entirety and then vote at the Scheme Meeting:

- > in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- > by appointing a proxy to vote on your behalf.

Full details of who is eligible to vote and how to vote are set out in section 3 of this Explanatory Memorandum.

What you will receive under the Scheme

What will I receive if the Scheme is approved and Implemented?

If the Scheme is approved and Implemented, Scheme Shareholders will, depending on their Elections, receive as follows:

- > New IOOF Shares only (**Share Consideration**); or
- > a cash alternative, which may be entirely cash or a combination of cash and New IOOF Shares depending on Elections made by other Scheme Shareholders (**Maximum Cash Consideration**).

How is the Share Consideration calculated?

If, after making an Election, a Scheme Shareholder is entitled to receive Share Consideration, they will receive 0.104¹ New IOOF Shares for every SFGA Share.

All New IOOF Shares issued as Share Consideration will be quoted on the ASX and rank equally with existing IOOF Shares.

How is the Maximum Cash Consideration calculated?

IOOF has agreed to make a maximum of \$100 million cash available to pay to Scheme Shareholders who Elect to receive Maximum Cash Consideration. Scheme Shareholders Electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case, the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

Assuming no scale back, a Scheme Shareholder Electing to receive Maximum Cash Consideration will receive a cash amount for each SFGA Share equal to 0.104¹ multiplied by the IOOF VWAP.

Please refer to page 07 for a worked example of the calculation of Maximum Cash Consideration where it is required to be scaled back.

How will I know what the IOOF VWAP is?

SFGA will announce the IOOF VWAP as soon as practicable after close of trade on the Trading Day immediately preceding the Scheme Meeting through the ASX and on SFGA's website at www.sfgaaustralia.com.au.

How do I make an Election?

The Election Form enclosed with this Explanatory Memorandum is the form by which each Scheme Shareholder may Elect to receive Share Consideration or Maximum Cash Consideration.

The Election Form sets out the Election process and must be received before 5.00pm on Thursday, 14 August 2014, by the SFGA Share Registry.

Does the Election apply to additional SFGA Shares which I subsequently acquire?

Yes. The Election you make will apply to any SFGA Shares that you hold as at the Record Date.

Accordingly, if you acquire additional SFGA Shares and you hold these SFGA Shares at the Record Date, any Election you make will apply in respect of those SFGA Shares.

Can I make an Election if I hold Unvested Performance Rights?

Yes. The Election you make will apply to any SFGA Shares that you hold as at the Record Date.

Accordingly, if you are issued with SFGA Shares following the vesting of Performance Rights and you hold these SFGA Shares at the Record Date, any Election you make will apply in respect of those SFGA Shares.

It is a Condition Precedent of the Scheme that all outstanding Performance Rights issued by SFGA vest and convert into SFGA Shares, or are cancelled or agreed to be cancelled.

¹) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

What you will receive under the Scheme (continued)**What if I do not make an Election?**

If a valid Election is not received by 5.00pm on the Election Date (Thursday, 14 August 2014), you will be deemed to have Elected to receive your Scheme Consideration as Share Consideration.

If you make an invalid Election, you will also be deemed to have Elected to receive your Scheme Consideration as Share Consideration.

Should I make an Election even if I intend not to vote or to vote against the Scheme?

If you intend not to vote, or to vote against the Scheme, you should nevertheless consider making an Election.

If you do not make an Election and the Scheme is Implemented, you will be deemed to have Elected to receive your Scheme Consideration as Share Consideration regardless of whether you voted for or against the Scheme, or abstained or did not vote at all.

What if I am an Ineligible Overseas Shareholder?

All SFGA Shareholders, regardless of citizenship or residence, will be entitled to make an Election.

However, regardless of this Election, and any subsequent scale back of Maximum Cash Consideration, Ineligible Overseas Shareholders, being SFGA Shareholders who as at the Record Date are residents or citizens of, or whose address shown in the SFGA Share Register is, a place outside Australia and its external territories, will not receive any New IOOF Shares except where IOOF determines that they are not an Ineligible Overseas Shareholder.

To the extent that any Ineligible Overseas Shareholders would otherwise receive New IOOF Shares those New IOOF Shares will be issued to a Sale Nominee appointed by IOOF who will sell those shares and remit through IOOF to the Ineligible Overseas Shareholder, the cash proceeds of sale after deducting any applicable brokerage, taxes and charges in accordance with the Scheme.

Ineligible Overseas Shareholders should read section 3.5(m) of this Explanatory Memorandum on the Scheme Consideration available to Ineligible Overseas Shareholders.

How will I know the result of Elections made?

SFGA will announce a summary of the Elections as soon as possible after the Record Date through the ASX and on SFGA's website at www.sfgaustralia.com.au.

When will I receive the Scheme Consideration?

New IOOF Shares will be issued and the Maximum Cash Consideration will become available for payment to Scheme Shareholders entitled to receive Maximum Cash Consideration on the Implementation Date.

Ineligible Overseas Shareholders will be provided with any cash proceeds from the sale of New IOOF Shares to which they are entitled, at a different time and in accordance with the process explained in section 3.5(m) of this Explanatory Memorandum.

If I receive Share Consideration, when will my New IOOF Shares start trading on the ASX?

IOOF will seek confirmation from the ASX that, from the Business Day after the Effective Date (or such later date as the ASX requires), the New IOOF Shares issued as Scheme Consideration will be listed for quotation on the official list of the ASX, initially on a deferred settlement basis.

The New IOOF Shares issued as Scheme Consideration will trade on an ordinary settlement basis with effect from the Business Day after the Implementation Date (or such later date as the ASX requires).

How will I be paid the Maximum Cash Consideration?

Eligible Scheme Shareholders who have nominated an Australian bank account that is currently used by SFGA for the payment of dividends or notified prior to the Record Date will receive the Maximum Cash Consideration by electronic funds transfer into this bank account.

Alternatively, the Maximum Cash Consideration will be paid by cheque in Australian dollars drawn on an Australian bank account, and sent by pre-paid post to each Eligible Scheme Shareholder's address as it appears in the SFGA Share Register.

What you will receive under the Scheme (continued)

How can I change the bank account that my Maximum Cash Consideration will be paid into?

SFGA Shareholders can change or nominate a new Australian bank account in which to receive payment of the Maximum Cash Consideration by advising the SFGA Share Registry via www.investorcentre.com or by calling the SFGA Share Registry on 1300 308 185 (within Australia) or +61 3 9415 4181 (outside Australia) by no later than 5.00pm on the Record Date.

How will joint SFGA Shareholders be paid the Maximum Cash Consideration?

Joint holders of SFGA Shares who have nominated an Australian bank account that is currently used by SFGA for the payment of dividends or notified prior to the Record Date will receive the Maximum Cash Consideration by electronic funds transfer into this bank account.

Alternatively, the Maximum Cash Consideration will be paid by cheque in Australian dollars drawn on an Australian bank account, and sent by pre-paid post to the holder whose name appears first on the SFGA Share Register.

Joint holders can change or nominate a new Australian bank account in which to receive payment of the Maximum Cash Consideration by advising the SFGA Share Registry via www.investorcentre.com or by calling the SFGA Share Registry on 1300 308 185 (within Australia) or +61 3 9415 4181 (outside Australia) by no later than 5.00pm on the Record Date.

Will I be entitled to receive the final IOOF dividend for the year ending 30 June 2014?

Based on the current timetable (see Important Dates on page 01 of this Explanatory Memorandum), it is anticipated that the Implementation of the Scheme will occur prior to the record date for the IOOF FY14 Dividend.

Accordingly, Scheme Shareholders who remain on the IOOF Share Register at the record date for the IOOF FY14 Dividend will be entitled to receive the IOOF FY14 Dividend.

Will I be entitled to receive the final IOOF dividend for the year ending 30 June 2014 if Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend?

No. Scheme Shareholders will not be entitled to receive the IOOF FY14 Dividend if Implementation of the Scheme is delayed and occurs after the record date for the IOOF FY14 Dividend. This will not be the case if the current timetable is met (see Important Dates on page 01 of this Explanatory Memorandum).

For the avoidance of doubt, the amount of the IOOF FY14 Dividend does not form part of the Scheme Consideration.

However, if Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend, the SFGA Directors have the discretion (and would, in those circumstances, intend) to declare and pay the SFGA FY14 Dividend and the SFGA Special Dividend which together would equal the IOOF FY14 Dividend amount Scheme Shareholders would have received had Implementation of the Scheme occurred prior to the record date for the IOOF FY14 Dividend.

For the avoidance of doubt, the amount of the SFGA FY14 Dividend and the SFGA Special Dividend do not form part of the Scheme Consideration.

What are the tax consequences of the Scheme for me?

Section 8 of this Explanatory Memorandum provides a general outline of the Australian income tax, CGT, GST and stamp duty consequences for certain Scheme Shareholders of the disposal of their SFGA Shares to IOOF under the Scheme.

You should consult with your own tax advisor regarding the consequences of disposing of your SFGA Shares to IOOF in accordance with the Scheme in light of current tax laws and your particular investment circumstances.

Will I have to pay brokerage fees or stamp duty?

No, you will not have to pay any brokerage or stamp duty on the disposal of your SFGA Shares under the Scheme.

Do I have to sign anything to transfer my SFGA Shares?

No. If the Scheme becomes Effective, SFGA will automatically have authority to sign a transfer on your behalf, and the Scheme Consideration will be transferred to you.

However, you should be aware that under the Scheme, you are deemed to have warranted to IOOF that all of your SFGA Shares (including any rights and entitlements attaching to those shares) will, at the date of transfer of them to IOOF, be fully paid and free from all Encumbrances, and that you have full power and capacity to transfer your SFGA Shares.

Voting and approval of the Scheme

When and where will the Scheme Meeting be held?	The Scheme Meeting will be held at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 at 11.00am on Friday, 1 August 2014.
Am I entitled to vote at the Scheme Meeting?	<p>The time for determining eligibility to vote at the Scheme Meeting is 7.00pm on Wednesday, 30 July 2014. Only those SFGA Shareholders entered on the SFGA Share Register at that time will be entitled to attend and vote at the Scheme Meeting.</p> <p>You may vote in person, by proxy, by attorney or, in the case of a body corporate, by a duly appointed corporate representative.</p>
How must the Scheme be approved?	<p>In order for the Scheme to be Implemented, a resolution approving the Scheme must be passed by SFGA Shareholders by the Requisite Majorities being:</p> <ul style="list-style-type: none"> > a majority in number of SFGA Shareholders present and voting at the Scheme Meeting (in person, by proxy or by attorney or corporate representative); and > at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by attorney or corporate representative), at the Scheme Meeting. <p>It is also necessary for the Court to approve the Scheme before it can become Effective.</p>
What choices do I have as an SFGA Shareholder in voting for the Scheme?	<p>As an SFGA Shareholder, you have the following choices:</p> <ul style="list-style-type: none"> > you can vote at the Scheme Meeting in person, by attorney, by proxy or, in the case of corporate shareholders, by corporate representative; or > you can elect not to vote at the Scheme Meeting.
Should I vote?	Voting is not compulsory. However, the SFGA Directors believe that the Scheme is important to all SFGA Shareholders and the SFGA Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme at the Scheme Meeting.
How do I vote?	<p>You may vote in person by attending the Scheme Meeting to be held at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 at 11.00am on Friday, 1 August 2014.</p> <p>Alternatively, you may vote by lodging a proxy online via www.investorvote.com.au, or by completing and lodging the Proxy Form that is enclosed with this Explanatory Memorandum. The Proxy Form can be lodged by mail, in person or by fax – refer to section 3.10 of this Explanatory Memorandum for further details.</p> <p>You can also vote by appointing a corporate representative (if you are a corporate shareholder) or an attorney.</p> <p>For Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.</p> <p>Full details of how to vote and how to lodge the Proxy Form, corporate representative appointment or power of attorney are set out in section 3.10 of this Explanatory Memorandum.</p>
What happens if I do not vote, or I vote against the Scheme?	<p>The Scheme may not be approved at the Scheme Meeting by the Requisite Majorities of SFGA Shareholders. If this occurs the Scheme will not proceed, you will not receive the Scheme Consideration and you will remain an SFGA Shareholder.</p> <p>However, if the Scheme is approved and Implemented, your SFGA Shares will be transferred to IOOF under the Scheme and you will receive the Scheme Consideration for each SFGA Share you hold on the Record Date. This is the case regardless of whether you voted for or against the Scheme, or abstained or did not vote at all.</p> <p>If you do not make an Election and the Scheme is Implemented, you will be deemed to have Elected to receive your Scheme Consideration as Share Consideration regardless of whether you voted for or against the Scheme, or abstained or did not vote at all.</p>

Voting and approval of the Scheme (continued)

When will the results of the Scheme Meeting be available?	The results of the Scheme Meeting will be declared at the Scheme Meeting and will be notified to the ASX and on the SFGA website www.sfgaaustralia.com.au shortly after the conclusion of the Scheme Meeting.
If the Scheme is approved at the Scheme Meeting, what other approvals are required?	If the Scheme is approved by the Requisite Majorities of SFGA Shareholders at the Scheme Meeting, SFGA will apply to the Court for approval of the Scheme. The Court hearing for approval of the Scheme is expected to be held on Wednesday, 6 August 2014 (although this may change).
What happens if the Scheme is not approved at the Scheme Meeting?	If the Scheme does not proceed, SFGA Shareholders will retain their SFGA Shares, SFGA will continue to operate as a stand-alone entity listed on the ASX and SFGA Shareholders will not receive the Scheme Consideration. SFGA will continue to focus on its current business plan, and payment of any dividends in the future will be considered in accordance with SFGA's usual dividend policy.
What happens if the Scheme is approved at the Scheme Meeting, but it is not approved by the Court?	If the Scheme is approved at the Scheme Meeting, but is not approved by the Court, the Scheme will not proceed. SFGA Shareholders will retain their SFGA Shares, SFGA will continue to operate as a stand-alone entity listed on the ASX and SFGA Shareholders will not receive the Scheme Consideration. SFGA will continue to focus on its current business plan, and payment of any dividends will be considered in accordance with SFGA's usual dividend policy.
Other	
What are IOOF's intentions for SFGA if the Scheme proceeds?	IOOF's intentions for SFGA if the Scheme proceeds are set out in section 6.2 of this Explanatory Memorandum.
Can I keep my SFGA Shares?	No. If the Scheme is Implemented, your SFGA Shares will be transferred to IOOF in accordance with the Scheme. This is the case regardless of whether you voted in favour or against the Scheme, or abstained or did not vote at all.
When will SFGA Shares cease trading on the ASX?	<p>If the Scheme is approved, SFGA intends to apply to the ASX for suspension of trading of the SFGA Shares on the ASX with effect from the close of business on the Effective Date. It is expected that suspension of trading in SFGA Shares on the ASX will occur from the start of the Business Day following the Effective Date.</p> <p>If the Scheme is approved, SFGA intends to apply to the ASX for termination of official quotation of the SFGA Shares on the ASX and the removal of SFGA from the official list of the ASX with effect from the Business Day immediately following the Implementation Date.</p>
What are the transaction costs associated with the Scheme?	The total transaction costs associated with the Scheme are estimated to be \$11.9 million (approximately \$6.2 million of costs incurred by SFGA, and approximately \$5.7 million of costs incurred by IOOF).
What if I have other questions?	If you have any further questions concerning the Scheme, please consult your financial, legal, or other professional advisor or call the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or +61 1800 425 578 (outside Australia) on Business Days between 8.30am and 5.30pm.

Matters relevant to your vote on the Scheme



2.1 Reasons to vote in favour of the Scheme

a) The SFGA Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal

SFGA Directors acknowledge the merits of consolidation in the financial services industry and recognise that a combination of IOOF and SFGA has the potential to create significant value for SFGA Shareholders and also to provide benefits for clients of the Combined Group, such as access to additional products and services. For the reasons set out below, the SFGA Directors unanimously recommend that SFGA Shareholders vote in favour of the Scheme.

While the SFGA Directors acknowledge that there may be reasons to vote against the Scheme, they believe the advantages of the Scheme outweigh the disadvantages. In reaching their recommendation, the SFGA Directors have, among other things:

- > assessed the Scheme having regard to SFGA's standalone prospects;
- > assessed the strategic fit between the two organisations;
- > observed the industry trend towards consolidation;
- > obtained advice from SFGA's financial and legal advisors; and
- > considered the Independent Expert's conclusion.

The SFGA Directors intend to cause any SFGA Shares in which they have a Relevant Interest to be voted in favour of the Scheme in the absence of a Superior Proposal. Further details about those interests are set out in section 9.2 of this Explanatory Memorandum.

b) The Independent Expert has concluded that the Scheme is fair and reasonable, and in the best interests of SFGA Shareholders in the absence of a Superior Proposal

The Independent Expert has assessed the underlying value of SFGA to be in the range of \$0.85 to \$0.95 per SFGA Share (on a control basis). The Independent Expert states that the implied value of the Scheme Consideration, being in the range of \$0.84 to \$0.88 is consistent with the valuation range, and therefore the Scheme is fair and reasonable. The Independent Expert has also concluded that the Scheme is in the best interests of SFGA Shareholders. The Independent Expert states in relation to the Scheme that:

As the Scheme Consideration is consistent with the range of the assessed value of an SFGA Share we consider the terms of the proposed Scheme to be fair. Under the guidance provided by RG 111, as we consider the terms to be fair, we also consider the terms to be reasonable. As we are able to conclude that the terms of the Scheme are fair and reasonable, we also consider them to be in the best interests of Scheme Shareholders.

The Independent Expert's Report is set out in full in Annexure A of this Explanatory Memorandum. You should read the Independent Expert's Report in its entirety as part of your assessment of the Scheme and before casting your vote in relation to the Scheme.

c) No Superior Proposal has emerged since SFGA entered into the Scheme Implementation Agreement with IOOF

No alternative Superior Proposal for SFGA has emerged since SFGA announced that it had entered into the Scheme Implementation Agreement with IOOF on Friday, 16 May 2014.

The Scheme Implementation Agreement prohibits SFGA from soliciting Competing Proposals. However, SFGA is permitted to respond to Competing Proposals if the SFGA Directors determine, after taking advice from SFGA's external legal and financial advisors that such a Competing Proposal could reasonably be considered to become a Superior Proposal, failing to do so would be likely to constitute a breach of their fiduciary or statutory duties and provided that the Competing Proposal was not solicited by SFGA or its Representatives.

This is discussed in further detail section 3.4 of this Explanatory Memorandum.

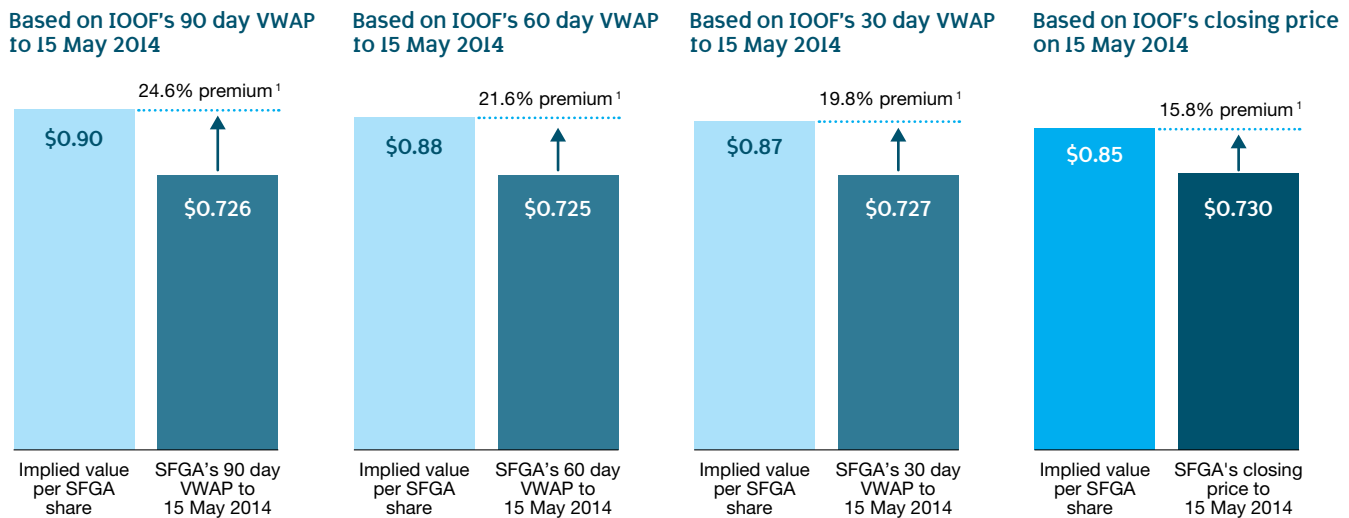
d) The implied value of the Scheme Consideration provides a substantial premium to historical SFGA Share prices

The Scheme Consideration represents a substantial premium over historical trading prices for SFGA Shares. The Scheme Consideration represents an implied valuation multiple of 18.5x¹ SFGA's underlying net profit after tax for the 12 months ended December 2013 and an implied value and corresponding premium per SFGA Share of:

- > \$0.90 and 24.6%, based on each of SFGA's and IOOF's 90 day VWAPs to 15 May 2014 (being the last Trading Day prior to the Announcement Date);
- > \$0.88 and 21.6%, based on each of SFGA's and IOOF's 60 day VWAPs to 15 May 2014 (being the last Trading Day prior to the Announcement Date);
- > \$0.87 and 19.8%, based on each of SFGA's and IOOF's 30 day VWAPs to 15 May 2014 (being the last Trading Day prior to the Announcement Date);
- > \$0.85 and 15.8%, based on each of SFGA's and IOOF's closing prices on 15 May 2014 (being the last Trading Day prior to the Announcement Date); and
- > \$0.88, based on each of SFGA's and IOOF's closing prices on 25 June 2014 (being the last practicable Trading Day prior to the date of this Explanatory Memorandum).

1) Based on IOOF's 90 day VWAP to 15 May 2014.

The chart below shows premium to historical SFGA Share Prices.



Source: IRESS

e) Scheme Shareholders can Elect to receive the Scheme Consideration as either New IOOF Shares or the cash alternative (which may be entirely cash or a combination of cash and New IOOF Shares depending on the Elections of other Scheme Shareholders)

If the Scheme is Implemented, you will receive either:

- > 0.104² New IOOF Shares for each SFGA Share (**Share Consideration**); or
- > if you so Elect, the alternative consideration described below, which may be entirely cash or a combination of cash and New IOOF Shares, depending on the Elections made by other Scheme Shareholders (**Maximum Cash Consideration**).

IOOF has agreed to make a maximum of \$100 million cash available to pay to Scheme Shareholders who Elect to receive Maximum Cash Consideration. Scheme Shareholders Electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

Assuming no scale back, a Scheme Shareholder Electing to receive Maximum Cash Consideration will receive a cash amount for each SFGA Share equal to 0.104² multiplied by the IOOF VWAP.

If the amount of cash consideration received by a Scheme Shareholder Electing to receive Maximum Cash Consideration is required to be scaled back then the Scheme Shareholder will also receive New IOOF Shares for the balance of any Scheme Consideration not paid in cash.

f) Scheme Shareholders who receive New IOOF Shares as consideration will be entitled to receive the IOOF FY14 Dividend if the Scheme is Implemented prior to the record date for the IOOF FY14 Dividend (provided they still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend)

Scheme Shareholders who receive New IOOF Shares as Scheme Consideration will be entitled to receive the IOOF FY14 Dividend if Implementation of the Scheme occurs prior to the record date for the IOOF FY14 Dividend, as is currently anticipated (and provided they still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend).

For the avoidance of doubt, the amount of the IOOF FY14 Dividend does not form part of the Scheme Consideration.

If Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend, the SFGA Directors have the discretion (and would, in those circumstances, intend) to declare and pay the SFGA FY14 Dividend and the SFGA Special Dividend which together will equal the amount shareholders would have received had implementation of the Scheme occurred prior to the record date for the IOOF FY14 Dividend.

For the avoidance of doubt, the amount of the SFGA FY14 Dividend and the SFGA Special Dividend do not form part of the Scheme Consideration.

g) Scheme Shareholders who receive New IOOF Shares will have the opportunity to participate in the strategic and financial benefits of the Combined Group

If the Scheme is Implemented, the combined business will benefit from increased scale, greater diversification of earnings and the ability to leverage capabilities across the Combined Group.

1) Premium calculated on an implied value per SFGA Share and VWAP for an SFGA Share that have not been rounded.

2) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

Trading prices of SFGA Shares over the past 12 months.



Source: IRESS

IOOF will become one of the largest wealth managers not associated with AMP or the big 4 banks. Greater scale may, in part, help IOOF achieve synergies. The combined business will have a diversified revenue base across the wealth management value chain including advice, platform administration and investment management.

h) Scheme Shareholders who receive New IOOF Shares are expected to benefit from greater trading volumes in IOOF Shares on the ASX relative to SFGA Shares

Historically, IOOF Shares have traded at higher volumes per day than SFGA Shares, therefore providing liquidity to parties seeking to buy or sell IOOF Shares. Over the 30 days immediately prior to the Announcement Date, approximately 1.2% of the total issued share capital of SFGA was traded on the ASX¹. During the same period, approximately 8.3% of the total issued share capital of IOOF was traded on the ASX¹.

IOOF is part of the S&P ASX 100 which is relevant to some institutional investors in selecting shares in which to invest. In this respect, SFGA Shareholders will have the opportunity to benefit from owning shares in IOOF, which has a larger market capitalisation than SFGA.

i) Scheme Shareholders who receive New IOOF Shares may be eligible for CGT rollover relief

If the Scheme is Implemented, those Scheme Shareholders who receive Share Consideration may benefit from Australian CGT rollover relief, provided that they qualify.

The benefit of choosing scrip for scrip rollover relief will depend on the individual circumstances of each Scheme Shareholder and therefore Scheme Shareholders should discuss this with their tax advisors.

For further detail regarding general Australian tax consequences of the Scheme, refer to section 8 of this Explanatory Memorandum. Taxation laws in Australia are complex and you are encouraged to read section 8 of this Explanatory Memorandum carefully and seek independent professional advice about your individual circumstances.

¹) Includes special crossings.

j) If the Scheme does not proceed, the SFGA Share price may potentially fall to a level around where SFGA Shares traded in the time leading up to the IOOF Proposal

As at 25 June 2014, being the last practicable Trading Day prior to the date of this Explanatory Memorandum, following the announcement of the Scheme on Friday, 16 May 2014 the price of SFGA Shares has increased by 17.1% and the price of SFGA Shares has reached its highest level since the merger of Snowball Group Limited and Shadforth Financial Group Holdings Limited on 26 June 2011.

As there are many factors which affect the price of SFGA Shares, the SFGA Directors are unable to predict the price at which SFGA Shares will trade in the future. However, the SFGA Directors consider that, in the absence of the Implementation of the Scheme and in the absence of a Superior Proposal, or speculation regarding an alternative proposal, the price of SFGA Shares may fall below the current market price.

The chart above shows the trading prices of SFGA Shares over the past 12 months.

k) There are no brokerage or transfer costs on the disposal of your SFGA Shares or the receipt of New IOOF Shares

You will not incur brokerage or stamp duty costs in relation to the transfer of your SFGA Shares to IOOF or the receipt of New IOOF Shares pursuant to the Scheme.

However, if you sell your SFGA Shares on-market prior to close of trading on the ASX on the Effective Date, you may incur such costs.

Please note, if you are an Ineligible Overseas Shareholder, you may incur brokerage, stamp duty and other selling costs, taxes and charges in relation to the transfer of SFGA Shares to IOOF or the receipt of New IOOF Shares pursuant to the Scheme.

You should refer to section 8 of this Explanatory Memorandum for a general overview of the tax implications of the Scheme.

2.2 Reasons not to vote in favour of the Scheme

a) You may disagree with the SFGA Directors' recommendation and the Independent Expert's conclusion

Notwithstanding the unanimous recommendation of the SFGA Directors and the favourable conclusion of the Independent Expert (as referred to in sections 2.1(a) and 2.1(b) of this Explanatory Memorandum respectively), you may believe that the Scheme is not in your best interests.

SFGA Shareholders are not obliged to follow the unanimous recommendation of the SFGA Directors or agree with the Independent Expert's conclusion.

b) You may consider that there is the potential for a Superior Proposal to be made in relation to SFGA in the foreseeable future

You may believe that there is a possibility that a Superior Proposal could emerge in the foreseeable future. However, the SFGA Directors note that since the announcement of the Scheme on Friday, 16 May 2014 and up to the date of this Explanatory Memorandum, the SFGA Directors have not received or become aware of any Superior Proposal.

If an unsolicited Superior Proposal is received prior to the Scheme Meeting, this will be considered by the SFGA Directors in accordance with their fiduciary duties, and subject to the provisions in the Scheme Implementation Agreement, the SFGA Directors will review their recommendation in relation to the Scheme.

The SFGA Directors will keep SFGA Shareholders fully informed if any Superior Proposal emerges before the Scheme Meeting and advise you of any decision via an announcement to the ASX and notification on SFGA's website www.sfgaaustralia.com.au.

c) The value of the Scheme Consideration will be dependent on the market value of IOOF Shares. The value of the Scheme Consideration you ultimately receive may be lower than the value calculated before the date of this Explanatory Memorandum

Prior to the Implementation Date, the implied value of the Scheme Consideration received by Scheme Shareholders will vary with movements in the price of IOOF Shares.

The Share Consideration is calculated as 0.104¹ New IOOF Shares for each SFGA Share held on the Record Date. The implied value of the Share Consideration will change if the market price of IOOF Shares increases or decreases before the Implementation Date.

It should be noted that the implied value of the Maximum Cash Consideration option will also be subject to fluctuations in the market price of IOOF Shares until the IOOF VWAP is known. The Maximum Cash Consideration will be calculated based on the VWAP of IOOF Shares over the 10 Trading Days immediately prior to the Scheme Meeting.

Accordingly, the implied value of the Scheme Consideration on the Implementation Date may be more or less than the implied value of the Scheme Consideration on the last practicable Trading Day prior to the date of this Explanatory Memorandum.

It is important to recognise that the market price of shares in a listed company is subject to fluctuations in the share market caused by various factors. See section 7.2 of this Explanatory Memorandum for a discussion of risk factors that may cause value fluctuations in IOOF Shares after Implementation of the Scheme.

d) You may not want to own IOOF Shares (which you may receive even if you Elect to receive your Scheme Consideration as Maximum Cash Consideration and you are scaled back)

There is a risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated. Any failure to achieve targeted synergies may impact on the financial performance and position of the Combined Group and the future price of IOOF Shares.

Further, in holding IOOF Shares, SFGA Shareholders will be exposed to risk factors relating to IOOF, and to certain risks relating to the Combined Group. In some cases, those risks are different from or additional to those related to SFGA.

The investment profile for SFGA Shareholders would also change if they instead held IOOF Shares. While the operations of IOOF and SFGA are similar in a number of ways, the operational profile, capital structure and size of the Combined Group will be different from that of SFGA on a standalone basis.

These risks have been outlined by IOOF in section 7.2 of this Explanatory Memorandum.

e) The tax consequences of the Scheme may not be optimal for your individual financial position

If the Scheme becomes effective, there may be tax consequences for Scheme Shareholders which may include tax being payable on any gain on disposal of SFGA Shares. A general guide to the taxation implications is set out in section 8 of this Explanatory Memorandum. This guide is expressed in general terms and individual Scheme Shareholders should seek their own independent professional advice regarding tax consequences applicable to their own circumstances.

¹) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

2.3 Other relevant considerations

a) The Scheme may be Implemented regardless of whether you voted for or against the Scheme, or abstained or did not vote at all

You should be aware that regardless of whether you voted for or against the Scheme, or abstained or did not vote at all, the Scheme may still be Implemented if it is approved by the Requisite Majorities and the Court. If this occurs, your Scheme Shares will be transferred to IOOF and you will receive the Scheme Consideration regardless of whether you voted for or against the Scheme, or abstained or did not vote at all. If you do not make an Election as to the form of Scheme Consideration you wish to receive, you will be deemed to have Elected to receive your Scheme Consideration as Share Consideration.

b) Deemed warranties

You should be aware that, if the Scheme becomes Effective, under the terms of the Scheme, Scheme Shareholders will be deemed to have warranted that their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) are fully paid and free from all Encumbrances and that they have full power and capacity to transfer those Scheme Shares.

These warranties are set out in full in clause 8.5 of the Scheme which is contained in Annexure D of this Explanatory Memorandum.

c) SFGA Shareholders do not need to wait if they wish to dispose of their SFGA Shares

SFGA Shareholders should take into account that they may offer to sell their SFGA Shares on the ASX at any time prior to the Effective Date if they do not wish to hold them and participate in the Scheme. However, SFGA Shareholders should note that they may not receive consideration equivalent to the implied value of the Scheme Consideration, and brokerage expenses on sale may be incurred. Certain SFGA Shareholders' individual financial or taxation circumstances may make it preferable for them to do so. SFGA Shareholders should seek their own independent professional advice regarding any decision with respect to their SFGA Shares.

d) Entitlement to the IOOF FY14 Dividend

It is anticipated that the Implementation of the Scheme will occur prior to the record date for the IOOF FY14 Dividend. Accordingly, if this occurs, Scheme Shareholders will be on the IOOF Share Register at the record date for the IOOF FY14 Dividend and will be entitled to receive the IOOF FY14 Dividend (provided they still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend).

For the avoidance of doubt, the amount of the IOOF FY14 Dividend does not form part of the Scheme Consideration.

Scheme Shareholders will not be entitled to receive the IOOF FY14 Dividend if Implementation of the Scheme is delayed and occurs after the record date for the IOOF FY14 Dividend. This will not be the case if the current timetable is met (see Important Dates on page 01 of this Explanatory Memorandum).

If Implementation of the Scheme occurs after the record date for the IOOF FY14 Dividend, the SFGA Directors have the discretion (and would, in those circumstances, intend) to declare and pay the SFGA FY14 Dividend and the SFGA Special Dividend which together would equal the IOOF FY14 Dividend amount SFGA Shareholders would have received had implementation of the Scheme occurred prior to the record date for the IOOF FY14 Dividend. For the avoidance of doubt, the amount of the SFGA FY14 Dividend and the SFGA Special Dividend do not form part of the Scheme Consideration. The provisions in relation to the entitlement to dividends are set out in full in clause 4.4 of the Scheme Implementation Agreement which is contained in Annexure C of this Explanatory Memorandum.

e) Implications if the Scheme is not approved

If the Scheme is not approved by the Requisite Majorities of SFGA Shareholders at the Scheme Meeting, or by the Court at the Second Court Hearing, or the other Conditions Precedent to the Implementation of the Scheme outlined in section 3.4(a) of this Explanatory Memorandum are not satisfied (or waived, where permitted):

- i) SFGA Shareholders will not receive the Scheme Consideration. Accordingly, SFGA Shareholders will not receive any potential IOOF FY14 Dividend;
- ii) SFGA Shares will not be transferred to IOOF (they will be retained by SFGA Shareholders);
- iii) SFGA will continue to operate as a standalone entity;
- iv) SFGA Shareholders will continue to be exposed to the benefits and risks associated with an investment in SFGA (see section 7.3 for further details of the risks); and
- v) In the absence of a Superior Proposal, or speculation regarding an alternative proposal, the SFGA Share price may potentially fall to a level around where SFGA Shares traded in the time leading up to the IOOF Proposal.

f) Break Fee

SFGA has agreed to pay a break fee of \$6 million to IOOF in certain circumstances. A break fee will not be payable merely because SFGA Shareholders do not vote in favour of the Scheme.

The details of the break fee arrangements are set out in section 3.4(c) of this Explanatory Memorandum.

g) Exclusivity

SFGA and IOOF have entered into certain arrangements which restrict the ability of SFGA to enter into discussions with potential rival bidders (subject to various exceptions) and require SFGA to provide IOOF with certain rights in respect of matching any alternative offers, if they arise. Summaries of these arrangements are set out in section 3.4(b) of this Explanatory Memorandum.

Further details in relation to the Scheme are set out in section 3 of this Explanatory Memorandum.

Further details concerning the Scheme



3.1 Background

On Friday, 16 May 2014, SFGA announced that it had entered into a Scheme Implementation Agreement with IOOF, under which, subject to the satisfaction or waiver of a number of conditions, it is proposed that IOOF will acquire 100% of the ordinary shares in SFGA pursuant to a Scheme of Arrangement. A copy of the Scheme Implementation Agreement is set out in Annexure C of this Explanatory Memorandum.

The SFGA Board unanimously recommends that you vote in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal. The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Shareholders, in the absence of a Superior Proposal. A copy of the Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum.

If the Scheme is approved by SFGA Shareholders and by the Court, and all other Conditions Precedent are satisfied or waived, SFGA will become a wholly owned Subsidiary of IOOF and applications will be made to delist SFGA from the ASX. A copy of the Scheme is set out in Annexure D of this Explanatory Memorandum.

3.2 Entitlements under the Scheme

a) Summary

If the Scheme is Implemented, Scheme Shareholders will receive as Scheme Consideration either:

- > 0.104¹ New IOOF Shares for each SFGA Share (**Share Consideration**); or
- > a cash alternative, which may be entirely cash or a combination of cash and New IOOF Shares, depending on the Elections made by other Scheme Shareholders (**Maximum Cash Consideration**)².

For further detail regarding the Election mechanism and scale back mechanism refer to sections 3.2(b) and 3.2(c) of this Explanatory Memorandum.

b) Election mechanism

i) General

Scheme Shareholders may Elect to receive their Scheme Consideration as follows:

- A) Share Consideration; or
- B) Maximum Cash Consideration.

A valid Election made by a Scheme Shareholder will apply to all of the Scheme Shares in the relevant holding of the Scheme Shareholder as at the Record Date and will be valid if the Election Form is received before 5.00pm (Sydney time) on the Election Date by the SFGA Share Registry. See the "What you will receive under the Scheme" section of the Frequently Asked Questions for further information on Election.

Elections must be made in accordance with the terms and conditions set out in this Explanatory Memorandum and the Election Form. If no Election is made, or an Election is invalid, or it is received after the Election Date, a Scheme Shareholder will be deemed to have Elected to receive Share Consideration in respect of those Scheme Shares.

Scheme Shareholders may change their Election by lodging a replacement Election Form provided that it is received by the SFGA Share Registry by 5.00pm on the Election Date. You can obtain a replacement Election Form by contacting the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or +61 1800 425 578 (outside Australia) on Business Days between 8.30am and 5.30pm.

Replacement Election Forms received after 5.00pm (Sydney time) on the Election Date will be disregarded and the Scheme Consideration you receive will be determined in accordance with your last valid Election received, or if no earlier valid Election was received, you will be deemed to have validly Elected to receive Share Consideration.

ii) Trustee or nominee Shareholders

Scheme Shareholders who hold one or more parcels of SFGA Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections in accordance with the Election process in relation to each of those parcels of SFGA Shares, to reflect the instructions of the beneficial owners of SFGA Shares as to how they wish to receive the Scheme Consideration.

In order to make separate Elections, the trustee or nominee must establish sufficient distinct holdings in the SFGA Share Register to cater for their underlying client's instructions for the Election. On each of these separate holdings, the trustee or nominee must make a distinct Election.

Separate holdings must be established prior to the Election Date in order to make separate Elections for Scheme Consideration in relation to each holding. The trustee or nominee should then lodge a separate Election Form for each separate holding by the Election Date. You can obtain additional copies of the Election Form by contacting the SFGA Shareholder Information Line on 1800 425 578 (within Australia) or +61 1800 425 578 (outside Australia) on Business Days between 8.30am and 5.30pm.

The Scheme Consideration payable in respect of each separate holding will be calculated on the total balance of the holding as at the Record Date, not individual beneficial shareholder entitlements.

Trustees or nominees who would like further information on how to make a separate Election in relation to parcels of SFGA Shares in SFGA should contact the SFGA Share Registry on 1300 555 159 (within Australia) or +61 3 9415 4062 (outside Australia) on Business Days between 8.30am and 5.30pm.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

2) IOOF has agreed to make a maximum of \$100 million cash available to pay to SFGA Shareholders who Elect to receive Maximum Cash Consideration. SFGA Shareholders electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

c) Scale back of Maximum Cash Consideration

IOOF has agreed to make a maximum of \$100 million cash available to pay to Scheme Shareholders who Elect to receive Maximum Cash Consideration. Scheme Shareholders Electing to receive Maximum Cash Consideration will receive their entire Scheme Consideration in cash unless the total amount of cash required to pay all such shareholders would exceed \$100 million in aggregate. In this case the amount of the Scheme Consideration received in cash will be scaled back and the balance of the Scheme Consideration will be paid in New IOOF Shares.

Assuming no scale back, a Scheme Shareholder Electing to receive Maximum Cash Consideration will receive a cash amount for each SFGA Share equal to 0.104¹ multiplied by the IOOF VWAP.

If the amount of cash consideration received by a Scheme Shareholder Electing to receive Maximum Cash Consideration is required to be scaled back then the Scheme Shareholder will also receive New IOOF Shares for the balance of any Scheme Consideration not paid in cash.

Please refer to page 07 for a worked example of the calculation of Maximum Cash Consideration.

The formula to implement this scale back is contained in clause 5.4 of the Scheme (a copy of which is set out in Annexure D of this Explanatory Memorandum).

d) Fractional entitlements and share splitting or division

If the number of Scheme Shares held by a Scheme Shareholder at the Record Date is such that the aggregate entitlement of the Scheme Shareholder to Scheme Consideration:

- i) comprising IOOF Shares is such that a fractional entitlement to an IOOF Share arises; or
- ii) comprising cash is such that a fractional entitlement to a cent arises,

then the entitlement of that Scheme Shareholder must be rounded up or down, with any such fractional entitlement of less than 0.5 being rounded down to the nearest whole number of IOOF Shares (or cent, as applicable), and any such fractional entitlement of 0.5 or more will be rounded up to the nearest whole number of IOOF Shares (or cent, as applicable).

If IOOF is of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares which results in rounding) have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, IOOF may give notice to those Scheme Shareholders:

- i) setting out their names and registered addresses as shown in the SFGA Share Register;
- ii) stating that opinion; and
- iii) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares will, for the purposes of the other provisions of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the other provisions of the Scheme, be taken to hold no Scheme Shares.

IOOF in complying with the other provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

3.3 Performance Rights and retention arrangements

SFGA operates the SFGA Employee Incentive Plan pursuant to which it made grants of Performance Rights to employees which are subject to vesting conditions based on performance criteria.

As at 25 June 2014, being the last practicable day prior to the date of this Explanatory Memorandum, there were 6,501,913 outstanding Performance Rights issued under the SFGA Employee Incentive Plan.

It is a Condition Precedent of the Scheme Implementation Agreement that prior to 8.00am on the Second Court Date SFGA must ensure that:

- a) all outstanding Performance Rights are vested and converted into SFGA Shares;
- b) all outstanding Performance Rights are cancelled; or
- c) agreements to acquire or cancel all outstanding Performance Rights have been executed by each of the holders of Performance Rights and SFGA.

In order to comply with its obligation, SFGA must:

- a) cause some or all of the outstanding Performance Rights to vest and, following such vesting, cause the relevant number of SFGA Shares to be issued in sufficient time to allow the relevant former holders of the relevant Performance Rights to participate in the Scheme; and
- b) take such action as may be necessary to cancel any outstanding Performance Rights which it does not cause to vest.

The SFGA Board has determined in accordance with the SFGA Employee Incentive Plan that:

- a) 343,040 of the 1,165,351 Performance Rights held by Mrs Fox will vest and 343,040 SFGA Shares will be issued prior to 11 July 2014 in respect of those Performance Rights that vest. The balance of Mrs Fox's Performance Rights will lapse and be cancelled; and

¹ The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

- b) the remaining 5,336,562 Performance Rights will vest on or after the Effective Date and before the Record Date and 5,336,562 SFGA Shares will be issued in respect of those Performance Rights (subject to those Performance Rights not otherwise lapsing prior to that vesting in accordance with the SFG Employee Incentive Plan, for example, in circumstances where the relevant executive ceases to be employed by the Group or where notice of resignation or termination has been given prior to the Effective Date).

In respect of those Performance Rights that vest, SFGA Shares will be allocated or issued such that the holders of those SFGA Shares are entitled to participate in the Scheme on the same basis as all other holders of SFGA Shares. All those Performance Rights that do not vest will lapse or be cancelled.

The treatment of Linda Fox's Performance Rights is described in further detail in section 9.2(b) of this Explanatory Memorandum.

IOOF has agreed to waive condition 3.1(n) of the Scheme Implementation Agreement in order to give effect to the above process.

Elections may be made in respect of any SFGA Shares issued subsequent to vesting by completing the Election Form as described in section 3.2(b) of this Explanatory Memorandum.

SFGA has the ability under the Scheme Implementation Agreement to pay retention bonuses for an amount of up to \$1,500,000 in aggregate in order to retain executives for a period of 12 months from 16 May 2014.

3.4 Key terms of the Scheme Implementation Agreement

a) Conditions Precedent to the Scheme

The Implementation of the Scheme is subject to the satisfaction or waiver of a number of Conditions Precedent, including:

i) Approval of SFGA Shareholders and the Court

SFGA Shareholders approve the Scheme by the Requisite Majorities under section 411(4)(a)(ii) of the Corporations Act¹, and the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;

ii) No SFGA Material Adverse Change

Prior to the Second Court Date, no event, occurrence or matter occurs which individually or when aggregated with all such events, has or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the Group, and which would include:

- A) the value or total consolidated Net Assets of the Group being reduced, or which could reasonably be expected to be reduced, by \$25,600,000 or more; or
- B) the Underlying NPAT of the Group being reduced or which could reasonably be expected to be reduced, by \$5,400,000 or more per annum on a recurring basis, subject to certain exceptions;

iii) No IOOF Material Adverse Change

Prior to the Second Court Date, no event, occurrence or matter occurs which individually or when aggregated with all such events, has or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the IOOF Group, and which would include:

- A) the value or total consolidated Net Assets of the IOOF Group being reduced, or which could reasonably be expected to be reduced, by \$123,300,000 or more; or
- B) the Underlying NPAT of the IOOF Group being reduced or which could reasonably be expected to be reduced, by \$17,400,000 or more per annum on a recurring basis, subject to certain exceptions;

iv) No restraint

No legal restraint prevents any of the transactions contemplated by the Scheme Implementation Agreement;

v) ASIC and ASX consents

Prior to the Second Court Date, ASIC and the ASX issue or provide consents or approvals or have done such other acts which IOOF and SFGA agree are reasonably necessary to implement the Scheme;

vi) SFGA Prescribed Occurrence

No SFGA Prescribed Occurrence occurs prior to the Second Court Date;

vii) IOOF Prescribed Occurrence

No IOOF Prescribed Occurrence occurs prior to the Second Court Date;

viii) SFGA Warranties

Prior to the Second Court Date, the SFGA Warranties:

- A) that are qualified as to materiality, are true and correct; and
 - B) that are not so qualified, are true and correct in all material respects,
- as at the time they are given;

ix) IOOF Warranties

Prior to the Second Court Date, the IOOF Warranties:

- A) that are qualified as to materiality, are true and correct; and
 - B) that are not so qualified, are true and correct in all material respects,
- as at the time they are given;

x) Quotation of New IOOF Shares

Prior to the Second Court Date, the New IOOF Shares to be issued to Scheme Shareholders pursuant to the Scheme have been approved for official quotation by the ASX;

xi) Independent Expert's Report

Before the Explanatory Memorandum is lodged with ASIC, the Independent Expert issues a report that concludes the Scheme is in the best interests of Scheme Shareholders;

xii) Execution of Deed Poll

Before the date of sending the Explanatory Memorandum to SFGA Shareholders, IOOF validly signs, seals and delivers the Deed Poll; and

¹ Being, unless the Court otherwise orders, a majority in number of SFGA Shareholders present and voting at the Scheme Meeting (in person, by proxy or by corporate representative or attorney), and at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by corporate representative or attorney).

xiii) Performance Rights

Prior to the Second Court Date, all outstanding Performance Rights issued by SFGA are vested and converted into SFGA Shares, cancelled or agreements to acquire or cancel them have been executed by each holder of the Performance Rights and SFGA.

As at 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, the conditions described in paragraphs (xi) and (xii) above have been satisfied. As far as SFGA is aware, no circumstances have occurred which will cause any other of the Conditions Precedent not to be satisfied or to become incapable of satisfaction. These matters will continue to be assessed until 8.00am on the Second Court Date.

SFGA will inform SFGA Shareholders of the status of the Conditions Precedent prior to the Scheme Meeting through an announcement to the ASX.

The Conditions Precedent summarised above are set out in full in clause 3 of the Scheme Implementation Agreement (a copy of which forms Annexure C of this Explanatory Memorandum).

b) Exclusivity**i) No shop**

SFGA has agreed that during the Exclusivity Period it must not, and must ensure that its Representatives and its Related Bodies Corporate do not, except with the prior written consent of IOOF, solicit, invite, initiate or encourage any Competing Proposal or any inquiry, expression of interest, offer, proposal, negotiations or discussions by or with any Third Party in relation to an actual or potential Competing Proposal.

ii) No talk and no due diligence

SFGA has agreed that during the Exclusivity Period it must not, and must ensure that its Representatives and its Related Bodies Corporate do not, except with the prior written consent of IOOF:

- A) participate in any negotiations or discussions with any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- B) make available to any Third Party, or permit any Third Party to receive, any non-public information relating to any member of the Group in connection with such Third Party formulating, developing or finalising a Competing Proposal; or
- C) communicate to any person an intention to do anything referred to above,

The no talk and no due diligence restrictions above do not apply if the SFGA Board determines, in good faith, that such Competing Proposal could reasonably be considered to become a Superior Proposal, failing to do so would be reasonably likely to constitute a breach of their fiduciary or statutory duties and provided that the Competing Proposal was not encouraged, solicited, invited or initiated by SFGA or its Representatives in contravention of the “no shop” provisions in paragraph (i) above.

iii) Notice of Competing Proposal

SFGA has agreed that during the Exclusivity Period it must promptly, and in any event no later than the Business Day following the relevant event:

- A) notify IOOF if it or any of its Representatives or Related Bodies Corporate:
 - 1) receives a bona fide expression of interest, offer or proposal from any person which is or may reasonably be expected to lead to a Competing Proposal and must disclose to IOOF the identity of the acquirer, proposed price or implied value, form of consideration and conditions; or
 - 2) provides any information relating to SFGA or any of its Related Bodies Corporate or any of their businesses or operations to any person for a purpose which SFGA knows or would reasonably expect to relate to a current or future Competing Proposal; and
- B) provide IOOF with any information provided by any of its Representatives or Related Bodies Corporate to any person as contemplated in (A)(2) above.

iv) IOOF right of last offer

SFGA has agreed that during the Exclusivity Period it must not enter into a binding implementation agreement (or any other similar agreement which provides for the payment of a break fee (or similar payment)) in relation to a Competing Proposal and must ensure that each member of the SFGA Board does not change its Recommendation or Voting Intention as a consequence of receiving a Competing Proposal, unless:

- A) SFGA has complied with its exclusivity obligations;
- B) SFGA has determined that the Competing Proposal would be a Superior Proposal and has notified IOOF of this determination; and
- C) SFGA has provided IOOF with 3 clear Business Days to submit a written proposal to revise the Transaction to be considered in good faith by the SFGA Board. If the revised Transaction is at least as favourable to SFGA Shareholders as the Competing Proposal would be, the parties must each use best endeavours to, as soon as practicable, agree the necessary amendments to the Scheme Implementation Agreement, and take all other necessary steps, to give effect to the change to the Transaction subject to any Superior Proposal.

c) Break Fee

SFGA agrees to pay IOOF the Break Fee if, at any time after Friday, 16 May 2014, the Scheme does not become Effective because:

- i) an actual, proposed or potential Competing Proposal of any kind is announced during the Exclusivity Period and within 12 months of such announcement, the Third Party proposing the Competing Proposal:
 - A) acquires Control of SFGA;
 - B) otherwise acquires, has a right to acquire, has an exclusive economic interest in or becomes the holder of all or a material part of SFGA's business or assets or the business or assets of the Group;
 - C) otherwise acquires SFGA; or
 - D) enters into an agreement, arrangement or understanding with SFGA or the SFGA Directors requiring SFGA to not proceed with the Transaction;

- ii) a majority of SFGA Directors fail to recommend the Scheme or publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Competing Proposal, unless the Independent Expert states that the Scheme is not in the best interests of SFGA Shareholders; or
- iii) SFGA is in breach of its exclusivity obligations in the Scheme Implementation Agreement, and does not cease the conduct which caused the breach within 2 Business Days following written notice from IOOF.

d) Representations and warranties

SFGA and IOOF have given representations and warranties as to information contained in the Explanatory Memorandum and compliance with disclosure and other obligations and certain other representations and warranties which are customary for a transaction of this nature.

e) Termination

i) Termination by IOOF

IOOF may terminate the Scheme Implementation Agreement at any time prior to 8.00am on the Second Court Date if one of the following termination events occurs and the termination event has not been remedied by the earlier of 5 Business Days from the date on which notice was given to SFGA and 8.00am on the date one Business Day before the Second Court Date:

- A) if SFGA is in material breach of any clause of the Scheme Implementation Agreement (other than in relation to clauses 6.3 (Material Contracts) and 7 (Recommendation, intentions and announcement) of the Scheme Implementation Agreement, the SFGA Warranties or in relation to an SFGA Prescribed Occurrence);
- B) if SFGA is in breach of clause 7 (Recommendation, intentions and announcement) of the Scheme Implementation Agreement;
- C) if the SFGA Warranties:
 - 1) that are qualified as to materiality, are not true and correct; and
 - 2) that are not so qualified, are not true and correct in all material respects,
 as at the time they are given;
- D) if an SFGA Prescribed Occurrence occurs; or
- E) if a majority of SFGA Directors publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Competing Proposal, for any reason, whether or not permitted to do so under the Scheme Implementation Agreement.

ii) Termination by SFGA

SFGA may terminate the Scheme Implementation Agreement at any time prior to 8.00am on the Second Court Date if one of the following termination events occurs and the termination event has not been remedied by the earlier of 5 Business Days from the date on which notice was given to IOOF and 8.00am on the date one Business Day before the Second Court Date:

- A) if IOOF is in material breach of any clause of the Scheme Implementation Agreement (other than the IOOF Warranties or in relation to an IOOF Prescribed Occurrence);

B) if the IOOF Warranties:

- 1) that are qualified as to materiality, are not true and correct; and
- 2) that are not so qualified, are not true and correct in all material respects,

as at the time they are given;

C) if an IOOF Prescribed Occurrence occurs; or

D) if a majority of SFGA Directors publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Superior Proposal, but only where such change, withdrawal or recommendation occurs or is made in accordance with the rights and obligations of SFGA and the SFGA Board pursuant to the terms of the Scheme Implementation Agreement.

iii) Termination by either party

Either party may terminate the Scheme Implementation Agreement at any time prior to 8.00am on the Second Court Date if one of the following termination events (other than the termination event described in item (A)) occurs and the termination event has not been remedied by the earlier of 5 Business Days from the date on which notice was given to IOOF and 8.00am on the date one Business Day before the Second Court Date:

- A) if there is a breach or non-fulfilment of a Condition Precedent which is not waived and SFGA and IOOF cannot reach agreement as to an alternative way forward after consulting in good faith; or
- B) if agreed to in writing by SFGA and IOOF.

3.5 Key steps to Implement the Scheme

a) Scheme Implementation Agreement

On Friday, 16 May 2014, SFGA and IOOF entered into the Scheme Implementation Agreement under which SFGA agreed to propose the Scheme.

A summary of the key terms of the Scheme Implementation Agreement is set out in section 3.4 of this Explanatory Memorandum and a copy of the Scheme Implementation Agreement is provided in Annexure C of this Explanatory Memorandum.

b) Deed Poll

On 25 June 2014, IOOF executed the Deed Poll pursuant to which IOOF agreed, subject to the Scheme becoming Effective, to provide the Scheme Consideration to each Scheme Shareholder.

A copy of the Deed Poll is provided in Annexure E of this Explanatory Memorandum.

c) Court hearings

On Friday, 27 June 2014, the Court ordered that SFGA convene the Scheme Meeting to be held at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 on Friday, 1 August 2014 commencing at 11.00am for the purposes of considering the Scheme. The order of the Court convening the Scheme Meeting is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

SFGA will apply to the Court for an order approving the Scheme if the Scheme is approved by the Requisite Majorities of SFGA Shareholders at the Scheme Meeting. The Court has discretion as to whether to grant the orders approving the Scheme, even if the Scheme is approved by the Requisite Majorities of Scheme Shareholders.

The Corporations Act and the relevant Court rules provide a procedure for SFGA Shareholders to oppose the approval by the Court of the Scheme. If you wish to oppose the approval of the Scheme at the Second Court Hearing you may do so by filing with the Court and serving on SFGA an interlocutory process in the prescribed form together with any affidavit on which you wish to rely at the hearing. With leave of the Court, you may also oppose the approval of the Scheme by appearing at the Second Court Hearing and applying to raise any objections you may have at the hearing. SFGA should be notified in advance of an intention to object. The date for the Second Court Hearing is currently scheduled to be Wednesday, 6 August 2014, though an earlier or later date may be sought. Any change to this date will be announced through the ASX and notified on SFGA's website (www.sfgaaustralia.com.au).

d) Actions by SFGA and IOOF

If the Court order approving the Scheme is obtained, the directors of each of SFGA and IOOF will take or procure the taking of the steps required for the Scheme to proceed.

In particular SFGA will lodge with ASIC copies of the Court order under section 411 of the Corporations Act, approving the Scheme and the Scheme will become Effective. This is expected to occur on Wednesday, 6 August 2014.

e) Suspension of trading of SFGA Shares

The Scheme provides that if the Scheme becomes Effective, a Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date.

If the Scheme is approved, SFGA intends to apply to the ASX for suspension of trading of the SFGA Shares on the ASX with effect from the close of business on the Effective Date. It is expected that suspension of trading in SFGA Shares on the ASX will occur from the start of the Business Day following the Effective Date.

If the Scheme is approved, SFGA intends to apply to the ASX for termination of official quotation of the SFGA Shares on the ASX and the removal of SFGA from the official list of the ASX with effect from the Business Day immediately following the Implementation Date.

f) New IOOF Shares to trade on deferred settlement basis

IOOF will seek confirmation from the ASX that, as from the Business Day after the Effective Date (or such later date as the ASX requires), expected to be Thursday, 7 August 2014, the New IOOF Shares issued as Scheme Consideration will be listed for quotation on the official list of the ASX, initially on a deferred settlement basis and, with effect from the Business Day after the Implementation Date (or such later date as the ASX requires), on an ordinary settlement basis.

Scheme Shareholders who sell New IOOF Shares before they receive their holding statements or confirm their holdings of New IOOF Shares do so at their own risk. Neither SFGA nor IOOF takes any responsibility for such trading.

g) Election Date

The last date and time for lodging an Election Form as described in section 3.2(b) of this Explanatory Memorandum is 5.00pm on Thursday, 14 August 2014.

h) Determination of who is entitled to the Scheme Consideration

For the purposes of establishing who are Scheme Shareholders, dealings in SFGA Shares will be recognised by SFGA provided that:

- i) in the case of dealings of the type to be effected on CHESS, the transferee is registered in the SFGA Share Register as the holder of the relevant SFGA Shares by the Record Date; and
- ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the SFGA Share Register is kept by 5.00 pm on the Record Date (in which case SFGA must register such transfers before 7.00 pm on that day),

and SFGA will not accept for registration, or recognise for the purpose of establishing who are Scheme Shareholders, any transmission application or transfer in respect of SFGA Shares received after such times on the Record Date.

SFGA will, until the Scheme Consideration has been paid and IOOF has been entered in the SFGA Share Register as the holder of all of the Scheme Shares, maintain the SFGA Share Register on this basis and the SFGA Share Register in this form and the terms of the Scheme will solely determine entitlements to the Scheme Consideration.

i) Provision of Scheme Consideration

If the Scheme becomes Effective and no later than 1 Business Day before the Implementation Date, IOOF will deposit the aggregate amount of Maximum Cash Consideration payable to all Scheme Shareholders in Immediately Available Funds into a trust account operated by SFGA to be held in trust for the purpose of paying the Maximum Cash Contribution to those Scheme Shareholders who have Elected to receive Maximum Cash Consideration.

On the Implementation Date, in consideration for the transfer to IOOF of each Scheme Share:

- i) IOOF will issue to each Eligible Scheme Shareholder such number of New IOOF Shares as that Eligible Scheme Shareholder is entitled to as Scheme Consideration;
- ii) IOOF will issue to a Sale Nominee appointed by IOOF in accordance with the Scheme, such number of New IOOF Shares as are attributable to the Ineligible Overseas Shareholders;
- iii) IOOF will procure the entry in the IOOF Share Register:
 - A) of the name and address of each Eligible Scheme Shareholder in respect of the New IOOF Shares issued to them; and
 - B) of the name and address of the Sale Nominee appointed by IOOF in respect of those New IOOF Shares that would otherwise be issued to each Scheme Shareholder who is an Ineligible Overseas Shareholder; and
- iv) Each Scheme Shareholder will be paid such amount of Maximum Cash Consideration (if applicable) as that Scheme Shareholder is entitled to for each Scheme Share registered in the name of that Scheme Shareholder in Australian currency by:
 - A) making a deposit into the nominated Australian bank account of the relevant Scheme Shareholder recorded on the SFGA Share Register as at the Record Date. If a Scheme Shareholder has not previously notified the SFGA Share Registry of their nominated bank account, they should visit the self-service site (www.investorcentre.com) and complete their own entry or contact the SFGA Registry on 1300 308 185 (within Australia) or +61 3 9415 4181 (outside Australia) prior to the Record Date; or
 - B) if a Scheme Shareholder does not have a nominated Australian bank account on the SFGA Share Register as at the Record Date, Australian dollar cheque for any such Maximum Cash Consideration sent by prepaid ordinary post (or, if the address of the Scheme Shareholder in the SFGA Share Register is outside Australia, by pre-paid airmail post) to his or her address recorded in the SFGA Share Register as at the Record Date.

If any Scheme Shareholder's whereabouts is unknown as at the Record Date, any such Maximum Cash Consideration will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed moneys.

Within 5 Business Days after the Implementation Date, IOOF will send or procure the despatch to each Scheme Shareholder whose New IOOF Shares are held on the issuer sponsored subregister of IOOF or the Sale Nominee appointed by IOOF (as the case may be) by prepaid post to their address (as recorded in the SFGA Share Register as at the Record Date, except in the case of the Sale Nominee appointed by IOOF) of uncertificated holding statements for New IOOF Shares issued to the Scheme Shareholder or the Sale Nominee appointed by IOOF (as the case may be) in accordance with the Scheme.

j) Scheme Shareholders with an existing holding of IOOF Shares in a CHESS holding

If a Scheme Shareholder is an existing holder of both SFGA Shares and IOOF Shares under the same CHESS Holder Identification Number (**HIN**), the standing instructions recorded on that HIN in the share register for their existing IOOF Shares will, to the maximum extent permitted by law, apply to their New IOOF Shares (except to the extent that IOOF determines otherwise).

k) Scheme Shareholders who do not own IOOF Shares or have an existing holding of IOOF Shares in an issuer sponsored holding

For Scheme Shareholders:

- i) who are not already a holder of IOOF Shares; or
- ii) who are existing holders of IOOF Shares but hold their IOOF Shares in an issuer sponsored holding,

the compatible standing instructions which currently apply to Scheme Shareholders' SFGA Shares will, to the maximum extent permitted by law, from the Record Date be deemed to be new standing instructions to, and accepted by, IOOF in respect of New IOOF Shares issued to those Scheme Shareholders (except to the extent that IOOF determines otherwise).

This will include compatible instructions relating to payment of dividends and written and electronic communications from SFGA. You can revoke or amend those instructions by notifying the IOOF Share Registry in writing.

l) Instructions relating to tax file numbers

In all cases, your tax file number or tax file number exemption disclosures for SFGA are not applicable to your holding for New IOOF Shares and will not be transferred to the IOOF Share Registry.

Accordingly, your instructions relating to tax file numbers and tax file number exemption disclosures will need to be given to the IOOF Share Registry after New IOOF Shares have been issued to you. The IOOF Share Registry will contact you for these instructions shortly after your New IOOF Shares have been issued.

m) Ineligible Overseas Shareholders

IOOF will ensure that New IOOF Shares to which an Ineligible Overseas Shareholder would otherwise have been entitled (if they were an Eligible Scheme Shareholder) will be issued to a Sale Nominee appointed by IOOF.

IOOF will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the Sale Nominee:

- i) sells on the financial market conducted by the ASX all of the New IOOF Shares issued to the Sale Nominee in such manner, at such price and on such other terms as the Sale Nominee determines in good faith; and
- ii) remits to IOOF the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).

Promptly after the last sale of New IOOF Shares IOOF will pay to each Ineligible Overseas Shareholder the proportion of the net proceeds of sale received by IOOF to which that Ineligible Overseas Shareholder is entitled.

Neither IOOF or SFGA gives any assurance as to the price that will be achieved for the sale of New IOOF Shares described above. The sale of the New IOOF Shares will be at the risk of the Ineligible Overseas Shareholder.

IOOF must appoint the Sale Nominee at least two weeks prior to the Scheme Meeting.

3.6 Funding of Maximum Cash Consideration

a) Overview

The maximum amount of cash that IOOF will be required to pay as part of the Scheme Consideration is \$100 million.

b) Sources of cash funding

IOOF intends to fund the Maximum Cash Consideration by:

- i) undertaking a competitive process to enter into a new debt facility (**New Debt Facility**); or
- ii) alternatively, where IOOF is unable to enter into a suitable New Debt Facility or to the extent any New Debt Facility entered into by IOOF is insufficient to fund the entirety of the Maximum Cash Consideration, drawing down on a debt facility to be provided by Commonwealth Bank of Australia (**CBA**) (**CBA Debt Facility**).

c) Particulars of New Debt Facility

IOOF will undertake a competitive process to enter into a New Debt Facility with a suitable financial institution before the Effective Date. IOOF considers that a suitable financial institution is one which has a suitable credit rating and significant experience in the provision of credit to Australian corporate entities.

Under the proposed New Debt Facility, IOOF will seek funding of up to \$100 million for the purpose of funding IOOF's obligations under the Scheme to pay the Maximum Cash Consideration.

If the New Debt Facility is entered into, IOOF intends to:

- i) disclose on ASX the general nature of any conditions precedent, warranties and representations in relation to the New Debt Facility; and
- ii) drawdown from the New Debt Facility all amounts as are required to satisfy IOOF's obligations under the Scheme to pay the Maximum Cash Consideration as and when such amounts are due.

d) Particulars of CBA Debt Facility

CBA and IOOF have entered into a binding loan commitment letter and term sheet in relation to the CBA Debt Facility. Under the CBA Debt Facility, CBA has agreed to provide funding of up to \$100 million for the purpose of funding IOOF's obligations under the Scheme to pay the Maximum Cash Consideration.

IOOF intends to draw down on the CBA Debt Facility only where it is unable to enter into a suitable New Debt Facility or to the extent any New Debt Facility entered into by IOOF is insufficient to fund the entirety of the Maximum Cash Consideration.

The drawdown of funds under the CBA Debt Facility is subject to certain conditions precedent which will need to be satisfied or waived by CBA. IOOF considers these conditions precedent to be customary for a loan of this size and type. The key conditions precedent include:

- i) there being no event of default or review event in existence or which would result from the borrowing of such funds; and
- ii) there being no potential event of default in existence.

Other conditions precedent relate to limited representations and warranties, and other procedural matters.

As at the date of this Explanatory Memorandum, IOOF is not aware of any reason why the conditions precedent under the CBA Debt Facility will not be satisfied or why IOOF would not be able to draw down on the CBA Debt Facility all amounts as are required to satisfy IOOF's obligations under the Scheme to pay the Maximum Cash Consideration as and when such amounts are due.

3.7 Ranking of New IOOF Shares and entitlement to IOOF Dividends

The New IOOF Shares issued pursuant to the Scheme will rank equally with all other IOOF Shares with respect to dividends from the Implementation Date.

If the IOOF FY14 Dividend is paid on IOOF Shares, or the record date for the IOOF FY14 Dividend occurs, before the Implementation Date, Scheme Shareholders will receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme.

This is achieved by an adjustment that is made to increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place.

3.8 What happens if the Scheme does not proceed?

If the Scheme does not proceed the Scheme Consideration will not be paid and SFGA will continue to be listed on the ASX. SFGA Shareholders will retain their SFGA Shares and continue to share in any benefits and risks of SFGA's ongoing business.

SFGA has a strong business model and management team. If the Scheme does not proceed, SFGA will continue to focus on its current business plan, and any payment of dividends in the future will be considered in accordance with SFGA's usual dividend policy.

3.9 Your choices as an SFGA Shareholder

As an SFGA Shareholder you have the following choices:

- > you can vote at the Scheme Meeting in person, by attorney, by proxy or, in the case of corporate shareholders, by corporate representative;
- > you can elect not to vote at the Scheme Meeting; or
- > you can buy or sell SFGA Shares on the ASX before the Record Date. If you sell your SFGA Shares on the ASX you may incur brokerage costs. If the Scheme becomes Effective, SFGA Shares will cease trading on the ASX at close of trading on the Effective Date. Accordingly, you can sell your SFGA Shares on market at any time before the close of trading on the day that the Scheme becomes Effective (although normal brokerage and other expenses on sale may be incurred). This is expected to occur on Wednesday, 6 August 2014.

3.10 How to vote

SFGA Shareholders can vote in either of two ways:

- > by attending the Scheme Meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- > by appointing a proxy to attend and vote on their behalf.

Voting in person (or by attorney)

SFGA Shareholders are asked to arrive at the venue (Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000) 30 minutes prior to the time designated for the Scheme Meeting, so that their shareholding can be checked against the SFGA Share Register and attendances noted.

Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Representatives of companies attending the Scheme Meeting must present written proof of their appointment, including any authority under which that appointment is signed, prior to the commencement of the Scheme Meeting (unless previously lodged with the SFGA Share Registry).

Voting by proxy

- > An SFGA Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the Scheme Meeting.
- > The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed, and if the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.
- > A proxy need not be an SFGA Shareholder.
- > If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.
- > If a proxy is instructed to abstain from voting on an item of business, that person is directed not to vote on the SFGA Shareholder's behalf on the poll, and the SFGA Shares the subject of the proxy appointment will not be counted in computing the Requisite Majorities.

- > SFGA Shareholders who return their Proxy Form(s) with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the Scheme Meeting, the company secretary of SFGA or any SFGA Director which do not contain a direction will be used to vote in favour of the Scheme Resolution.
- > A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by the SFGA Share Registry by 11.00am on Wednesday, 30 July 2014. You can revoke the proxy after this time by attending the Scheme Meeting and voting in person.
- > Completed Proxy Forms should be sent to the SFGA Share Registry using one of the reply-paid envelopes provided with the Explanatory Memorandum.
- > To be valid, Proxy Forms must be received by 11.00am on Wednesday, 30 July 2014 by one of the following methods:
 - by mailing the Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited, GPO Box 1282, Melbourne, VIC, 3001, Australia (using the reply paid envelope provided) or the registered office of SFGA;
 - by hand delivering the enclosed Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited at "Yarra Falls", 452 Johnston Street, Abbotsford, VIC, 3067;
 - by faxing the Proxy Form to the SFGA Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);
 - by lodging a proxy online with the SFGA Share Registry via www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.
- > The Proxy Form must be signed by the SFGA Shareholder or the SFGA Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointor's attorney, a certified copy of the power of attorney, or the power itself, together with evidence of non-revocation of that power, must be received by the SFGA Share Registry at either of the above addresses or by facsimile transmission by 11.00am on Wednesday, 30 July 2014. If facsimile transmission is used, the power of attorney must be certified.

3.11 Taxation implications

A general guide to the taxation implications of the Transaction for certain SFGA Shareholders is set out in section 8 of this Explanatory Memorandum. This guide is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any SFGA Shareholder.

Information about SFGA

4

4.1 SFGA

SFGA is a leading non-aligned client focused financial advice and end-to-end wealth management firm, listed on the ASX (ASX: SFW) with a market capitalisation of \$632.9 million¹.

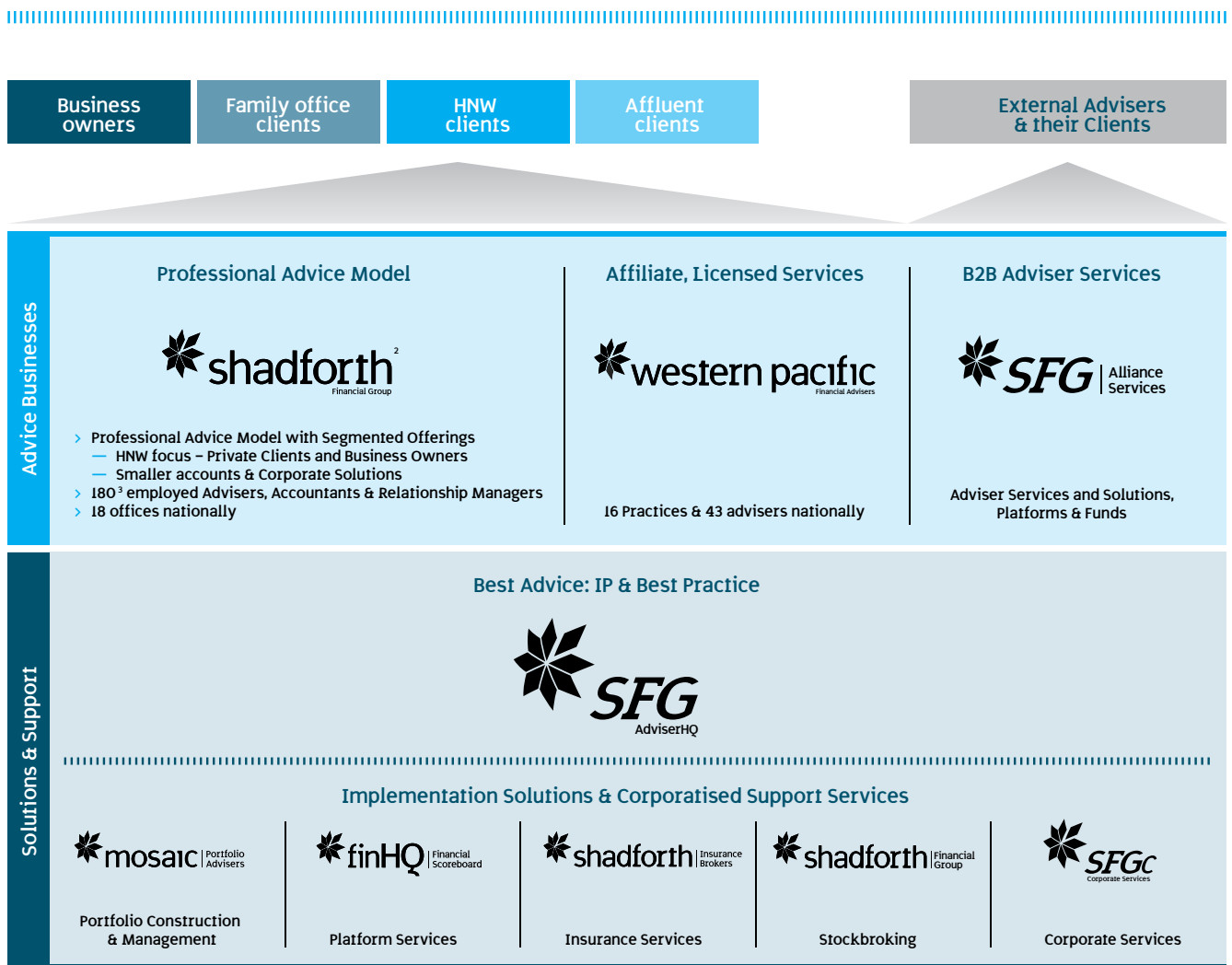
The Group provides wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration solutions, portfolio construction and management services, insurance (both general and risk) solutions, finance broking, stockbroking, corporate superannuation, accounting and tax services.

4.2 Overview of Operations

The Group operates three complementary financial advice business models: the Professional Advice model, the Affiliate Adviser model and the B2B Adviser Services model.

Contemporary business model

Integrated advice and implementation services across the entire client value chain.



1) Based on the closing price of \$0.855 of SFGA Shares on 25 June 2014.

2) Lachlan Partners is in the process of being rebranded as Shadforth.

3) As at 31 December 2013.

a) The Professional Advice model

The Professional Advice model comprises the established financial advice businesses of Shadforth Financial Group (**Shadforth**). Nationally, the Professional Advice model has 18 offices and over 180 employed client-facing financial advisers and accountants.

Shadforth is the flagship retail brand for the company. Shadforth is one of Australia's leading financial advisory firms. Shadforth has the experience and expertise working with clients to deliver greater peace of mind about their financial futures. The majority of Shadforth advisers are Certified Financial Planners, and in July 2013 Shadforth was awarded the Money Management Independent Dealer Group of the Year¹.

Lachlan Partners joined the Group in March 2013 and offers tailored solutions in the areas of accounting and tax, financial planning and family office services. They also provide the Group with self-managed super fund administration services. Lachlan Partners is in the process of being rebranded as Shadforth.

b) The Affiliate Adviser model

The Affiliate Adviser model comprises the Western Pacific Financial Group (**Western Pacific**) financial advice dealer group, comprising 16 practices and 43 advisers in WA, QLD, NSW, VIC and SA. The Western Pacific practices are owned and operated by the principal advisers and operate under the Western Pacific brand, license and operating systems. SFGA provides dealer services and advice implementation infrastructure to each of the practices, enabling each practice to leverage SFGA's capability and scale.

c) The B2B Adviser Services model

The B2B Adviser Services model comprises the Group's third party relationships. The Group operates this business under the brand SFG Alliance Services. SFG Alliance Services is a business-to-business offering for independent AFSL holders. The Group provides a combination of adviser support services, portfolio administration products and services, and portfolio management products and services to enable independent AFSL holders to provide advice services to their respective clients. The B2B Adviser Services model also comprises investments in joint ventures focused on financial advice and accounting.

Supporting the Group's Professional Advice, Affiliate and B2B Adviser models are each of the following:

d) Adviser HQ

Adviser HQ is focused on improving the advice processes, tools and templates, and adviser education, to enable the Group's advisers to provide service to their clients.

e) Implementation Solutions

Implementation Solutions contains the Group's platform relationships, stockbroking, general insurance and lending services.

f) Mosaic Portfolio Advisers Limited

Mosaic Portfolio Advisers Limited (**Mosaic**) houses the Group's portfolio construction and management function. Mosaic is the Responsible Entity of 14 managed funds and the portfolio constructor for the Managed Portfolio Service (**MPS**) and the Dynamic Portfolio Update Service (**DPU**).

The team within Mosaic is responsible for the research, selection and monitoring of preferred managers for use within model portfolios and the managed funds through a series of mandates with selected managers.

4.3 Board and senior management

a) Board

The SFGA Board is comprised of the following members:

Name	Position
Peter Promnitz	Chairman – Independent, Non-Executive Director
Anthony Fenning	Managing Director
Eric Dodd	Independent, Non-Executive Director
John Gannon	Independent, Non-Executive Director
James Kilkenny	Executive Director
Graham Maloney	Independent, Non-Executive Director
Naseema Sparks	Independent, Non-Executive Director

Mr Peter Promnitz

BSc (Hons), AIAA, FAICD

Chairman – Independent, Non-Executive Director

Mr Promnitz was appointed Chairman of SFGA on 1 May 2013. Mr Promnitz has been a Non-Executive Director of SFGA since 26 June 2011. Mr Promnitz was previously the Regional Head for Asia Pacific at Mercer. His business experience spans over 40 years and includes senior executive roles in Asia Pacific as well as a diverse career in financial services in Australia and New Zealand. Mr Promnitz has led investment, superannuation, actuarial and human resource consulting businesses in both executive and non-executive capacities with a personal focus on clients, diversity and governance. Mr Promnitz is a qualified actuary.

Mr Anthony Fenning

BEC, LLB, MBA

Managing Director

Mr Fenning has been in office as Managing Director of SFGA since 26 June 2011. Mr Fenning has over 20 years' experience in the financial services industry, having held senior management positions in leading Australian financial services and wealth management companies over this period. Mr Fenning held the position of Managing Director of Shadforth Financial Group Holdings Limited since inception of the company (2007) before the company merged with Snowball (now, SFGA).

Mr Fenning has a Bachelor of Economics and a Bachelor of Laws (Hons) from Sydney University and a Master of Business Administration from the Australian Graduate School of Management.

¹ The award recognises that Shadforth is not owned by a financial institution such as a bank or life insurance company. Shadforth is a wholly owned subsidiary of SFGA.

Mr Eric Dodd

BEc (UNE), FCA, FAICD

Independent, Non-Executive Director

Mr Dodd was appointed a Non-Executive Director of SFGA on 2 July 2010. He served as Chairman of SFGA from 2 July 2010 until 30 April 2013. Mr Dodd has extensive operational experience of more than 40 years in the insurance and financial services sectors. In 1996, Mr Dodd joined NRMA group as Chief Financial Officer and, in May 1998, became the Managing Director of NRMA Insurance Limited and Chief Executive Officer of NRMA Limited. Prior to NRMA, he held senior executive positions within the financial services industry.

Most recently, Mr Dodd held the position of Managing Director and CEO of MBF Australia Limited for six years and was appointed Managing Director of the combined organisation when MBF merged with BUPA Australia in June 2008.

Mr John Gannon**Deputy Chairman – Independent, Non-Executive Director**

Mr Gannon has been in office as Deputy Chairman of SFGA since 26 June 2011. Mr Gannon has more than 40 years' experience in the wealth management industry, and was CEO of Gannon Growden Schonell group of companies, which became a subsidiary of Shadforth in 2008. Gannon Growden Schonell was a specialist financial advice and wealth management firm based in Perth, Western Australia.

Mr James Kilkenny

BComm, FCA, CFP

Executive Director

Mr Kilkenny has been in office as Executive Director of SFGA since 26 June 2011. Mr Kilkenny has nearly 25 years' experience in the wealth management industry and is a founding principal of Kilkenny Rose, a specialist financial advice and wealth management firm based in Brisbane, Queensland, which was acquired by Shadforth in 2008.

Mr Graham Maloney

BA, AIAA, FAICD

Independent, Non-Executive Director

Mr Maloney has been in office as a Non-Executive Director of SFGA since December 2009. Mr Maloney started his career working as an actuary in superannuation at National Mutual (now AXA Asia Pacific Limited). He is currently Chief Executive Officer of Stratagm Pty Ltd which provides advice and services to business (through board roles and consulting services) and to individuals (through mentoring and coaching).

His experience spans more than 40 years working for blue chip organisations across a wide range of financial disciplines. These include life insurance and superannuation, general insurance, commercial banking and investment banking. His last executive role was with Macquarie Group Limited where he provided capital and funding advice to some of Australia's largest financial companies. Prior to that he was Group Treasurer for National Australia Bank Limited.

Ms Naseema Sparks

MBA, FAICD

Independent Non-Executive Director

Ms Sparks is an experienced company director with capability in a range of industry sectors, particularly B2C organisations that derive profit from consumer-based products and services. Ms Sparks has over 20 years experience in strategic consulting, brand and retail marketing and organic growth planning. Ms Sparks' executive career was as Managing Director of global communications companies M&C Saatchi and Y&R Group, and she holds an MBA from Melbourne Business School.

b) Senior Management Team

Key members of SFGA's senior management team include:

Name	Position
Anthony Fenning	Managing Director
Nick Bedding	Head of Shadforth Financial Group
John Cowan	Chief Operating Officer
Paul Cullen	Head of Best Advice
Linda Fox (departing 11 July 2014, as announced to the ASX)	Chief Financial Officer and Company Secretary
Philip Pezzi	Head of Lachlan Partners
David Pitcher	Head of finHQ

Mr Nick Bedding

MBA, Dip.FP, CFP, SA Fin, FAIM, MSAA, MAICD

Head of Shadforth Financial Group

Mr Bedding is the Head of Shadforth Financial Group. Mr Bedding is responsible for all financial advice, insurance and stockbroking operations of the Professional Advice model.

Mr Bedding holds a Masters Degree in Business Administration from the University of Tasmania and was awarded the McCarthy Medal as the top graduate. He was also awarded the ANZ Prize as the top graduate in Australia for the Diploma of Financial Planning from Deakin University. Mr Bedding has a Certificate in Financial Markets from the Securities Institute of Australia, is a Certified Financial Planner, a Senior Associate of the Financial Services Institute of Australasia, a Master of Stockbroking, a member of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management.

Mr John Cowan

BComm, F Fin, MAICD

Chief Operating Officer

Mr Cowan joined SFGA as Head of Product, Services and Business Acquisitions in May 2012 and was appointed Chief Operating Officer in November 2012, and has twice undertaken the role of Acting Chief Executive Officer. Mr Cowan has been involved in major aspects of the financial services industry for over 25 years. Most recently he was Head of Financial Services for Crowe Horwath Australasia Limited (then WHK Group Limited) where his role was to lead and grow the financial services business, including financial advice, risk and general insurance, lending and finance, and self-managed super fund administration.

Prior to Crowe Horwath, Mr Cowan was Group Executive, Customer and Distribution at MBF; General Manager of Financial Services at Insurance Australia Group (IAG), which included leading the development of ClearView Retirement Solutions; and Head of Product Management at St. George Bank after joining as a result of the merger with Advance Bank in November 1996.

Mr Cowan has a Bachelor of Commerce from the University of NSW, majoring in Accounting, Finance and Information Systems, and is a Fellow of FINSIA and a member of the Australian Institute of Company Directors.

Mr Paul Cullen

BBus, Dip. FP

Head of Best Advice

Mr Cullen commenced with SFGA in November 2012.

Mr Cullen is the Head of Best Advice and also has responsibility for Western Pacific and SFGA Alliance Services.

Prior to joining SFGA, Mr Cullen was Head of Advice Delivery for Colonial First State (CFS) where he was responsible for providing Licensee Services to the CFS advice businesses. Responsibilities included Paraplanning, Advice technology, Insurance Administration, Research, Technical Support and Advice Quality Assurance. Prior to joining CFS Mr Cullen was Head of Financial Planning for St. George Bank Limited.

Mr Cullen has over 25 years' experience in Financial Services. He has a Bachelor of Business from the University of Technology Sydney majoring in Finance and Economics and has completed the Diploma of Financial Planning.

Mrs Linda Fox(departing 11 July 2014, as announced to the ASX)¹

BComm, MBA, CA (NZ)

Chief Financial Officer and Company Secretary

Mrs Fox commenced employment with Shadforth Financial Group Holdings Limited in 2007 and is the Chief Financial Officer and Company Secretary of SFGA. Mrs Fox was previously a director, Chief Operating Officer and Company Secretary of Schroder Investment Management Australia Limited, and Chief Financial Officer Merrill Lynch Private Australia Limited.

Mrs Fox holds a Bachelor of Commerce (Accounting) from the University of Otago, as well as a Diploma of Graduates in Information Systems. She also has a Master of Business Administration (Executive) from the Australian Graduate School of Management and she is a Chartered Accountant (New Zealand).

Mr Philip Pezzi

BBus

Head of Lachlan Partners

Mr Pezzi is Lachlan Partners' Managing Director and co-founder. He has been in this role since the business formed in October 2004. He is an experienced banking and financial services executive with over 20 years' experience in both Australian and international markets.

Prior to Lachlan Partners, Mr Pezzi has worked in a senior capacity with National Australia Bank, ANZ Bank and Citibank N.A. Mr Pezzi has a Bachelor of Business from Swinburne University, majoring in Accounting and Tax. He has completed management and finance programs with the Macquarie Graduate School of Management and the Melbourne Business School.

Mr David Pitcher**Head of finHQ**

Mr Pitcher joined SFGA in 2012 as Head of finHQ. finHQ is an important initiative to develop a client facing interface which combines information from the Group's various portfolio management and administration solutions providers. Mr Pitcher's career spans 30 years working for global financial services corporations focusing on investments, change management and technology, and included roles with banking, financial advice and investment management organisations.

Most recently, David was Head of Business Solutions in the Investments Division of QBE, and prior to that he held roles with CBA, St George Bank and American Express in New York.

4.4 Historical Financial Information**a) Basis of preparation**

The historical financial information on the next page is a summary only and the full financial accounts for SFGA for the financial years described on the following pages, which include the notes to the accounts, can be found in SFGA's annual reports for those periods. These annual reports are available on SFGA's www.sfgaaustralia.com.au.

b) Consolidated income statement

The summarised consolidated historical income statements of SFGA set out in the table on the next page, for the financial years ended 30 June 2012 and 30 June 2013 have been extracted from SFGA's audited financial statements for each of the corresponding periods. The consolidated historical income statements for the half years ended 31 December 2012 and 31 December 2013 have been extracted from SFGA's reviewed financial statements for the relevant periods.

1) On 30 May 2014, SFGA announced that Mrs Fox has accepted a position with Commonwealth Bank of Australia and will leave SFGA on 11 July 2014. Mr Andrew Crowther has accepted a contract position with SFGA to act as the Chief Financial Officer to succeed Mrs Fox. Mr Crowther is a qualified chartered accountant and has previously undertaken finance roles for a number of listed and unlisted public companies including recently as CFO and General Manager Finance for Colonial First State. Mr Jonathan Swain, SFGA's current Head of Legal, has agreed to assume the role of Company Secretary from 11 July 2014.

	30 June 2013 \$'000	30 June 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
Revenue from continuing operations	155,810	138,085	88,980	73,970
Other income	710	—	1,501	350
Share of net profits from associates accounted for using the equity method	296	275	207	186
Staff costs	(62,044)	(57,323)	(37,384)	(29,932)
Advertising and marketing	(897)	(993)	(626)	(465)
Communications and information technology	(6,599)	(3,264)	(3,460)	(2,880)
Occupancy expense	(6,638)	(6,459)	(3,366)	(3,630)
Professional fees	(7,324)	(7,385)	(2,519)	(3,277)
Referral fees	(373)	(435)	(191)	(146)
Trade execution expenses	(308)	(313)	(151)	(148)
Portfolio administration fees	(11,362)	(10,906)	(5,542)	(5,208)
Investment manager fees	(9,279)	(7,565)	(4,536)	(4,826)
Travel and entertainment	(1,140)	(1,158)	(704)	(565)
Impairment	(923)	—	—	(923)
Other expenses	(5,873)	(6,167)	(2,622)	(2,475)
Statutory operating expenses	(112,760)	(101,968)	(61,101)	(54,475)
Depreciation	(1,304)	(1,269)	(604)	(625)
Amortisation	(5,162)	(4,336)	(3,079)	(2,322)
Finance costs	(1,626)	(1,205)	(1,188)	(564)
Profit before income tax	35,964	29,582	24,716	16,520
Income tax expense	(11,817)	(18,262)	(7,542)	(5,897)
Profit for the year	24,147	11,320	17,174	10,623
Other comprehensive income				
Other comprehensive income, net of tax	—	—	—	—
Total comprehensive income for the year	24,147	11,320	17,174	10,623
Profit for the year attributable to the owners of SFG Australia Limited	24,147	11,320	17,174	10,623
Total comprehensive income for the year attributable to the owners of SFG Australia Limited	24,147	11,320	17,174	10,623
	Cents	Cents	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of SFG Australia Limited:				
Basic earnings per share	3.30	1.55	2.34	1.46
Diluted earnings per share	3.29	1.55	2.32	1.45
Reconciliation of net profit after tax to underlying net profit after tax	\$'000	\$'000	\$'000	\$'000
Net profit attributable to equity holders of SFG Australia Limited	24,147	11,320	17,174	10,623
Acquisition related costs	2,970	1,882	679	1,498
One-off, non-operational items	1,050	4,713	(1,466)	713
Amortisation expense	5,162	4,336	3,079	2,322
Impairment of investment in associate	923	—	—	923
Notional funding cost of deferred consideration	812	498	494	323
Income tax effect of items above	(2,552)	(3,404)	(801)	(886)
Rights to Future Income tax impact	—	9,288	—	—
Underlying net profit after tax	32,512	28,633	19,159	15,516

c) Consolidated balance sheet

SFGA's summarised consolidated historical balance sheet statements set out in the table below, for the financial years ended 30 June 2012 and 30 June 2013 have been extracted from SFGA's audited financial statements for each of the corresponding periods. The consolidated historical balance sheet statements for the half years ended 31 December 2012 and 31 December 2013 have been extracted from SFGA's reviewed financial statements for the relevant periods.

	30 June 2013 \$'000	30 June 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
Assets				
Current assets				
Cash and cash equivalents	28,969	19,178	29,389	26,093
Trade and other receivables	19,712	16,289	20,779	17,832
Work in progress	802	208	1,059	—
Total current assets	49,483	35,675	51,227	43,925
Non-current assets				
Investments	4,394	5,410	4,845	4,528
Property, plant and equipment	4,331	5,466	3,979	5,252
Deferred tax assets	5,136	5,283	5,635	5,289
Intangible assets	188,104	155,035	186,562	158,302
Total non-current assets	201,965	171,194	201,021	173,371
Total assets	251,448	206,869	252,248	217,296
Liabilities				
Current liabilities				
Trade and other payables	20,257	15,530	19,458	18,556
Borrowings	507	349	530	485
Current tax liabilities	397	4,613	1,450	4,613
Provisions	11,120	10,612	9,982	8,611
Deferred consideration	6,411	2,365	4,037	6,276
Total current liabilities	38,692	33,469	35,457	38,541
Non-current liabilities				
Borrowings	22,693	1,240	22,156	5,986
Deferred tax liabilities	12,301	10,453	12,045	10,228
Provisions	1,163	863	1,026	1,091
Deferred consideration	13,345	8,814	11,010	5,995
Total non-current liabilities	49,502	21,370	46,237	23,300
Total liabilities	88,194	54,839	81,694	61,841
Net assets	163,254	152,030	170,554	155,455
Equity				
Contributed equity	145,450	142,522	145,450	142,552
Reserves	475	217	884	284
Retained profits	17,329	9,291	24,220	12,619
Total equity	163,254	152,030	170,554	155,455

4.5 Material changes in the financial position of SFGA

SFGA's latest published financial statements are the reviewed financial statements for the half-year ended 31 December 2013.

As at 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, there had been no material changes to the financial position of SFGA since 31 December 2013 based on the most recent management account information available¹. Any subsequent material changes to the financial position of SFGA will be disclosed on the ASX.

4.6 Capital Structure

As at the close of trading on 25 June 2014, the last practicable Trading Day before the date of this Explanatory Memorandum, SFGA had 734,531,160 ordinary shares on issue and 6,501,913 Performance Rights on issue.

In accordance with the arrangements described in section 3.3 of this Explanatory Memorandum, the SFGA Board has determined in accordance with the SFGA Employee Incentive Plan that:

- a) 343,040 of the 1,165,351 Performance Rights held by Mrs Fox will vest and 343,040 SFGA Shares will be issued prior to 11 July 2014 in respect of those Performance Rights that vest. The balance of Mrs Fox's Performance Rights will lapse and be cancelled; and
- b) the remaining 5,336,562 Performance Rights will vest on or after the Effective Date and before the Record Date and 5,336,562 SFGA Shares will be issued in respect of those Performance Rights (subject to those Performance Rights not otherwise lapsing prior to that vesting in accordance with the SFG Employee Incentive Plan, for example, in circumstances where the relevant executive ceases to be employed by the Group or where notice of resignation or termination has been given prior to the Effective Date).

4.7 Publicly available information

As an ASX-listed company and a "disclosing entity" under the Corporations Act, SFGA is subject to regular reporting and disclosure obligations. Broadly these require it to announce price sensitive information to the ASX as soon as it becomes aware of the information subject to exceptions for certain confidential information. SFGA's most recent announcements are available from its website www.sfgaustralia.com.au. Further announcements concerning SFGA will continue to be made available on the website after the date of this Explanatory Memorandum.

The ASX maintains files containing publicly available information about entities listed on its exchange. SFGA's files are available for inspection at the ASX during normal business hours and are available on the ASX website www.asx.com.au.

Additionally, copies of documents lodged with ASIC in relation to SFGA may be obtained from or inspected at ASIC. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of SFGA:

- > the SFGA Constitution;
- > the SFGA 2013 Annual Report; and
- > any other document or financial statement lodged by SFGA with ASIC or the ASX under the continuous disclosure reporting requirements in the period after the lodgement of the SFGA 2013 Annual Report and before the lodgement of this Explanatory Memorandum with ASIC (including the financial results referred to in section 4.4 above).

Some of these documents are also available from SFGA's website www.sfgaustralia.com.au.

¹) SFGA acquired Lachlan Partners in February 2013 on terms requiring SFGA to pay deferred consideration amounts if certain hurdles were met. SFGA's statement of financial position as at 31 December 2013 included a liability of \$8.4 million in respect of the obligation to pay such deferred consideration. SFGA is currently evaluating whether those hurdles are likely to be met based on the current performance of the Lachlan Partners business. Based on work carried out to date SFGA estimates that the deferred consideration liability included in the statement of financial position as at 30 June 2014 may be reduced by up to \$3.7 million. Any such reduction in the deferred consideration liability will give rise to a one-off increase in statutory net profit after tax for FY14 of an equivalent amount, but will not impact SFGA's underlying net profit after tax and preliminary calculations indicate goodwill would not be reduced via an impairment charge. This matter is subject to ongoing assessment and any changes in circumstances between now and the finalisation of SFGA's FY14 financial statements, later in the year.

Information about IOOF



5.1 Background

IOOF is an ASX-listed, top 100 company with a market capitalisation of \$1.96 billion¹. Since its origins in 1846, the IOOF Group has grown to become a leading provider of financial services, with approximately \$123.9 billion in funds under management, administration, advice and supervision (FUMAS), and approximately 655,000 customers.

5.2 Business overview

The IOOF Group is a fully integrated financial services provider of a range of wealth management solutions across four primary divisions. These divisions are described below.

a) Financial advice and distribution services

The IOOF Group provides financial advice and distribution services through its extensive network of financial advisers and stockbrokers. Almost 1000 advisers and associated stockbrokers within the IOOF Group advise retail clients on investment strategies, wealth protection and accumulation, stockbroking and retirement planning. Together with its referral partners, the IOOF Group is one of Australia's leading financial planning groups and services thousands of clients.

This division is represented by well-known brands such as Bridges Financial Services, Lonsdale Financial Group, Ord Minnett Stockbrokers, Consultum Financial Advisers and Plan B Wealth Management.

b) Platform management and administration

The IOOF Group provides platform management and administration services for advisers, their clients and hundreds of employers in Australia. The IOOF Group's platforms allow clients, employers and advisers to manage a wide range of superannuation and investment options, including managed funds and direct shares.

The flagship platforms of this division include IOOF Pursuit, IOOF Employer Super and The Portfolio Service.

c) Investment management

The IOOF Group provides investment management services that are tailored to the individual needs of investors. The IOOF Group offers multi-manager products that are easy to understand, with well-rounded investment options across a range of asset classes.

Through Perennial Investment Partners Limited, Australia's leading boutique investment house, investors can access investments in Australian shares, international shares, Australian listed property, global listed property, fixed interest and cash. The division is also represented by investment management brands IOOF MultiMix, IOOF WealthBuilder and IOOF QuantPlus.

d) Trustee services

The IOOF Group, through Australian Executor Trustees (AET), provides a variety of trustee services, including the preparation of estate plans, wills, powers of attorney, fiduciary services and the management of deceased estates.

AET also offers corporate trustee services including custodian services, trustee or security trustee services for securitisation and structured finance transactions, and trustee services for note and other debt issues.

5.3 IOOF Directors

The current IOOF Directors are set out below.

Dr Roger Sexton AM

BEC (Hons), MEd Ph.D (Econ), FAICD, FAIM, SF Fin, CP Mgr, CUniv

Chairman – Independent Non-Executive Director

Dr Sexton has been a Non-Executive Director of IOOF since 2002. Dr Sexton has more than 25 years' experience in senior management in finance and the investment banking industry and is a specialist in the areas of corporate reconstruction, mergers and acquisitions, and asset management. Dr Sexton was previously a member of the Australian Accounting Standards Board and is currently a Fellow of the Australian Institute of Management, a Fellow of the Australian Institute of Company Directors and a Senior Fellow of the Financial Institute of Australia. Dr Sexton was awarded a Member of the Order of Australia in the 2011 Queen's Birthday Honours.

Dr Sexton is the Chairman of the IOOF Group Remuneration and Nominations Committee, the Chairman of Perennial Investment Partners Limited and a member of the IOOF Group Audit Committee.

Mr Christopher Kelaher

BEC, LLB, F Fin

Managing Director

Mr Kelaher has been the Managing Director of IOOF since May 2009. Mr Kelaher was appointed to this role following IOOF's acquisition of Australian Wealth Management Limited, a company for which he had been Managing Director since 2006. Prior to that, Mr Kelaher had been the Chief Executive Officer of Select Managed Funds Limited for nine years.

Mr Kelaher is responsible for overseeing the strategic direction of the business as well as driving organic growth initiatives in each of the four main business divisions. During his 25 year career in financial services, Mr Kelaher has been instrumental in executing multiple mergers and acquisitions that have added materially to the IOOF Group and its antecedent businesses. Mr Kelaher also has extensive capital markets experience from his time with Citicorp where he assisted in the establishment of Citicorp Investment Management and Global Asset Management business in Australia and New Zealand. Mr Kelaher is a Fellow of the Financial Services Institute of Australia.

Mr Ian Griffiths

CAcc, DipAll, FAICD

Independent Non-Executive Director

Mr Griffiths has been a Non-Executive Director of IOOF since April 2009. Mr Griffiths was a former Executive Director of Australian Wealth Management Limited and Select Managed Funds Limited, from 1997 until the acquisition of Australian Wealth Management Limited by IOOF in 2009. Mr Griffiths has more than 40 years' experience in the financial and superannuation industries. With a superannuation administration and business consulting career commencing with AMP in 1972, Mr Griffiths has extensive industry knowledge and skills, particularly in operations, mergers and acquisitions.

Mr Griffiths is a member of the IOOF Group Remuneration and Nominations Committee, and a member of the IOOF Group Audit Committee.

¹) Based on the closing price of \$8.44 of IOOF Shares on 25 June 2014.

Ms Jane Harvey

BCom, MBA, FCA, FAICD

Independent Non-Executive Director

Ms Harvey has been a Non-Executive Director of IOOF since 2005. Ms Harvey has more than 30 years' experience in financial and advisory services, governance and risk management. Ms Harvey was formerly a Partner at PricewaterhouseCoopers.

Ms Harvey is the Chairman of the IOOF Group Audit Committee and a member of the IOOF Group Risk and Compliance Committee.

Ms Harvey is also currently a director of ASX-listed companies Duet Finance Limited and David Jones Limited.

Mr George Venardos

BCom, FCA, FCIS, FGIA, FAICD, FTIA

Independent Non-Executive Director

Mr Venardos has been a Non-Executive Director of IOOF since April 2009. Mr Venardos is an experienced director with broad listed company experience across a range of different industries, including financial services, affordable leisure, oil & gas services and technology development. Mr Venardos has more than 30 years' experience in senior executive roles in financial services, insurance and funds management including 10 years as Chief Financial Officer of Insurance Australia Group and Chairman of the Insurance Council of Australia Finance and Accounting Committee.

Mr Venardos is the Chairman of the IOOF Group Risk and Compliance Committee and a member of the IOOF Group Remuneration and Nominations Committee.

Mr Venardos is also a director of ASX-listed companies Ardent Leisure Group and BluGlass Limited.

5.4 IOOF Senior Management

The current members of IOOF senior management are set out below.

Mr David Coulter

BCom, FCA

Chief Financial Officer

Mr Coulter has been Chief Financial Officer of IOOF since the acquisition of Australian Wealth Management Limited by IOOF in April 2009. Prior to that, he was Head of Management Reporting at IOOF. He has financial services and listed entity experience having worked at JP Morgan, ANZ Bank and Colonial in a twenty four year professional career which commenced at PricewaterhouseCoopers in 1990.

Mr Stephen Merlicek

BEc (Hons), MCom (Hons), F Fin

Chief Investment Officer

Mr Merlicek has been the Chief Investment Officer of IOOF since October 2009. In his role, Mr Merlicek is responsible for various multi-manager products at IOOF as well as the Quant Plus portfolio management team in Perth.

Prior to joining IOOF, Mr Merlicek was the Chief Investment Officer at Telstra Super for 10 years. During this time Telstra Super was consistently a top performing fund and received numerous investment awards. Previously, Mr Merlicek has also worked as a portfolio manager, an economist and a soldier with the Australian Army.

Mr Merlicek was named Chief Investment Officer of the Year in the inaugural 2012 National Achievement awards.

Mr Gary Riordan

BEc, LLB

**Group General Counsel & General Manager
Trustee Services**

Mr Riordan has been the Group General Counsel of IOOF since 2006 and the General Manager, Trustee Services of IOOF since 2010. Mr Riordan has extensive financial services, trustee and governance experience, gained in a range of executive and professional roles in financial services over the last 25 years. In his current role, Mr Riordan is responsible for the legal and compliance frameworks supporting the business units of IOOF and is the General Manager to the trustee services business division of IOOF.

Prior to joining IOOF, Mr Riordan has been a Partner of legal practices, including GR Financial Services and Holding Redlich.

Mr Michael Farrell

BEc, DipEd, MBA

Group General Manager – Advice

Mr Farrell has been the General Manager – Advice since February 2013 and is responsible for the operations and oversight of all dealer groups and associated shared services for the advice business. Prior to this role, and over the past 10 years, Mr Farrell has been providing consulting services to financial services business including ANZ Bank, St George Bank, Challenger FSG, Zurich and Rabobank and has been the Group Managing Director for Garrisons Pty Ltd.

Mr Renato Mota

BBus (EcoFin), BCom (Hons), CFA

General Manager – Distribution

Mr Mota has been with IOOF for over 10 years and has previously held the roles of Head of Strategy and General Manager Investor Solutions within IOOF. Currently, Mr Mota holds the role of General Manager – Distribution. In this role, Mr Mota has responsibility for sales, marketing and product for the breadth of IOOF's offering, accounting for in excess of \$30 billion across retail and corporate superannuation, platforms and investments.

Prior to 2003, Mr Mota worked in financial services for NM Rothschild & Sons, National Australia Bank and ANZ Banking Group, with a particular focus on corporate strategy and mergers and acquisitions.

5.5 Corporate governance

IOOF recognises the importance of good corporate governance and is committed to maintaining the highest standards of corporate governance within the IOOF Group. This is an organisational priority since IOOF is both a listed company and an entity operating within the highly regulated financial services sector, overseen by APRA, ASIC, the ASX and AUSTRAC.

An overview of IOOF's main corporate governance policies and practices are set out below. Further details on IOOF's corporate governance policies and practices are available on IOOF's website www.ioof.com.au and in the IOOF 2013 Annual Report.

a) IOOF Board

Key features of the IOOF Board structure and the role of management include the following:

- i) the Chairman is selected by the IOOF Board and is an independent IOOF Director;
- ii) the IOOF Board delegates to the Managing Director responsibility for implementing IOOF's strategy and management of the day to day business and operations of IOOF but remains responsible to its shareholders for the performance of IOOF; and
- iii) in assessing the independence of each IOOF Director, the IOOF Board considers whether:
 - A) the director has a substantial interest in IOOF;
 - B) the director is free from any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of independent judgement; and
 - C) the director has been employed in an executive capacity or been a material professional advisor in the last three years.

b) Indemnity of directors and officers

IOOF has entered into deeds to indemnify each IOOF Director and IOOF Secretary against liability incurred in, or arising out of, the conduct of the business of IOOF or the discharge of the duties of that IOOF Director or IOOF Secretary.

IOOF has also paid insurance premiums to insure against legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the IOOF Group and any other payments arising from liabilities incurred by the officers in connection with such proceedings (other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage to themselves or someone else or to cause detriment to IOOF).

c) IOOF Board committees

Key components of the IOOF Board's governance structure are the following IOOF Board committees:

- i) IOOF Group Remuneration and Nominations Committee;
- ii) IOOF Group Audit Committee; and
- iii) IOOF Group Risk and Compliance Committee.

Each committee has a written charter known as its Terms of Reference which is accessible on the IOOF website www.ioof.com.au. Further information on the key responsibilities and membership of each committee is available in the Corporate Governance section of the IOOF 2013 Annual Report.

d) Ethical Conduct

IOOF has a Code of Conduct which applies to all directors, officers, employees, contractors and consultants within the IOOF Group and is designed to ensure a high standard of honest and ethical corporate and individual behaviour. The Code of Conduct is available on IOOF's website www.ioof.com.au.

e) Risk Management

The IOOF Board recognises that effective management of risk is an integral part of sound management and is vital to the continued growth and success of IOOF.

The IOOF Group's objective is to satisfactorily manage its risks in line with the IOOF Group's Risk Management Policy set by the IOOF Board, which aligns with International Standard ISO 31000. Risk management procedures are put in place to control and mitigate the risks faced by the IOOF Group and vary depending on the nature of the risk. The IOOF Group maintains a framework to ensure regulatory compliance obligations are managed in accordance with Australian Standard 3806 Compliance Programs. The IOOF Group's exposure to all material risks is monitored by its team and this exposure, and any anticipated risk exposure, is regularly reported to the IOOF Group Risk and Compliance Committee and the IOOF Board.

f) Market disclosure

The IOOF Board is committed to keeping its shareholders and the market fully informed of major developments that may have an impact on IOOF.

Procedures are in place to identify matters that are likely to have a material effect on the price of IOOF's securities and to ensure matters that are notified to the ASX are factual and made in a timely manner in accordance with the ASX Listing Rule requirements. IOOF has a Continuous Disclosure Policy which is made available to all employees and is available on IOOF's website www.ioof.com.au.

g) Trading securities by directors and employees

IOOF has a Securities Trading Policy that complies with the requirements of the ASX Listing Rules and is available on IOOF's website www.ioof.com.au.

h) Additional policies

IOOF has also implemented the following policies to ensure it is able to achieve its commitment to good corporate governance:

- > Whistleblower Policy;
- > Continuous Disclosure Policy;
- > Diversity Policy;
- > Media Policy;
- > Delegated Authorities Policy;
- > Anti-Money Laundering and Counter Terrorism Policy;
- > Complaints and Breach Reporting Policy;
- > Risk Management Plan and Risk Management Policy;
- > Capital Adequacy Policy;
- > Vendor Management and Outsourcing Policy; and
- > Responsible Person Manual – Fitness and Proprietary.

5.6 Historical Financial Information

a) Basis of preparation

The historical financial information below is a summary only and the full financial accounts for IOOF for the financial years described below, which include the notes to the accounts, can be found in IOOF's annual reports for those periods. These annual reports are available on IOOF's website www.ioof.com.au.

b) Consolidated Income Statement

The summarised consolidated historical income statements of IOOF set out in the table below, for the financial years ended 30 June 2012 and 30 June 2013 have been extracted from IOOF's audited financial statements for each of the corresponding periods. The consolidated historical income statements for the half years ended 31 December 2012 and 31 December 2013 have been extracted from IOOF's reviewed financial statements for the relevant periods.

(\$000)	Year ended 30 June 2013	Year ended 30 June 2012	Six months ended 31 December 2013	Six months ended 31 December 2012
External management and service fee revenue	582,936	524,275	311,287	278,447
External other fee revenue	27,584	21,503	14,362	16,537
Service fees and other direct costs	(244,319)	(231,721)	(130,685)	(119,038)
Amortisation of deferred acquisition costs	(5,786)	(6,568)	(1,181)	(2,830)
Gross margin	360,415	307,489	193,783	173,116
Stockbroking revenue	64,429	56,665	37,669	31,573
Stockbroking service fees expense	(38,264)	(21,273)	(22,487)	(18,720)
Stockbroking contribution	26,165	35,392	15,182	12,853
Other external revenue	4,778	3,941	2,361	2,875
Finance income	5,984	18,380	2,606	3,344
Share of profits of associates accounted for using the equity method (net of income tax)	7,700	8,181	3,738	4,067
Operating expenditure	(257,125)	(235,682)	(127,919)	(132,038)
Share-based payments expense	(5,657)	(3,013)	(2,766)	(1,937)
EBITDA	142,260	134,688	86,985	62,280
Finance costs	(4,007)	(2,586)	(1,747)	(1,771)
Depreciation	(4,451)	(4,386)	(2,106)	(2,167)
Amortisation	(23,604)	(20,352)	(12,843)	(11,075)
Life statutory revenue	84,682	52,528	45,653	46,170
Life statutory expenses	(65,115)	(55,832)	(31,077)	(31,458)
Reported profit before income tax	129,765	104,060	84,865	61,979
Income tax (expense)/benefit – shareholder	(29,766)	(87,665)	(21,158)	(13,705)
Income tax (expense)/benefit – statutory	(19,567)	3,304	(14,576)	(14,712)
Reported profit for the period	80,432	19,699	49,131	33,562

c) Consolidated Balance Sheet

IOOF's summarised consolidated historical balance sheet statements set out in the table below as at 30 June 2013 and 31 December 2013 have been extracted from IOOF's audited financial statements for the year ended 30 June 2013 and IOOF's reviewed financial statements for the half year ended 31 December 2013, respectively.

(\$000)	IOOF statutory consolidated balance sheet as at 30 June 2013	IOOF statutory consolidated balance sheet as at 31 December 2013
Assets		
Cash and cash equivalents	98,252	82,460
Receivables	69,653	78,043
Other financial assets	27,243	58,664
Other assets	23,301	19,801
Equity accounted investees	27,770	26,946
Property and equipment	11,626	10,471
Other intangible assets	304,044	294,012
Goodwill	578,090	578,090
Assets relating to statutory funds	807,141	857,305
Total assets	1,947,120	2,005,792
Liabilities		
Current liabilities		
Payables	57,109	54,458
Current tax liabilities	11,845	18,687
Other liabilities – current	3,964	3,390
Provisions – current	40,144	36,806
Other financial liabilities – current	4,402	2,567
Borrowings – current	15,659	90,591
Total current liabilities	133,123	206,499
Non current liabilities		
Other liabilities – non-current	7,260	6,370
Provisions – non-current	7,924	6,575
Other financial liabilities – non-current	25,857	25,689
Borrowings – non-current	90,956	20,735
Deferred tax liabilities	58,308	60,782
Liabilities relating to statutory funds	807,141	857,305
Total non-current liabilities	997,446	977,456
Total liabilities	1,130,569	1,183,955
Net assets	816,551	821,837
Equity		
Share capital	862,321	867,307
Reserves	(6,088)	(2,216)
Accumulated losses	(52,139)	(56,096)
Total equity attributable to equity holders of the Group	804,094	808,995
Non-controlling interests	12,457	12,842
Total equity	816,551	821,837

5.7 Material changes in the IOOF Group's position

IOOF's latest published financial statements are the reviewed financial statements for the financial half-year ended 31 December 2013.

As at 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, other than as disclosed on the ASX by IOOF, there had been no material changes likely to effect the financial position of IOOF since 31 December 2013. Any subsequent material changes to the financial position of IOOF will be disclosed on the ASX.

5.8 Capital and liquidity risk management

a) Capital risk management

The IOOF Group manages its capital and liquidity to safeguard its ability to continue as a going concern and to ensure that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the IOOF Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, buy back its shares on market, issue new shares, sell assets, or otherwise adjust debt levels.

The IOOF Group monitors capital on the basis of investment capital, working capital and regulatory capital. Each IOOF subsidiary manages its own capital required to support planned business growth and meet regulatory requirements. IOOF is primarily the provider of equity capital to its subsidiaries.

b) Liquidity risk

The IOOF Group manages liquidity risk exposure by:

- > maintaining sufficient liquid assets;
- > maintaining an ability to access a committed line of credit;
- > the continuous monitoring of actual and forecast cash flows;
- > matching the maturity profiles of financial assets and liabilities; and
- > investing temporary surplus funds in highly liquid, low risk financial assets.

The liquidity requirements for licensed entities in the IOOF Group are regularly reviewed and carefully monitored in accordance with those licence requirements.

5.9 IOOF's capital structure

This section sets out the latest information as disclosed to the market in accordance with the ASX Listing Rules.

a) Issued share capital

As at the close of trading on 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, IOOF's issued share capital included 232,118,034 IOOF Shares. The number of issued shares includes the treasury shares held by the IOOF Equity Plans Trust.

b) Other securities

As at the close of trading on 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, IOOF also had on issue the following unquoted securities:

- i) 2,776,180 options;
- ii) 2,624,278 performance rights;
- iii) 27,874 deferred shares; and
- iv) 836,078 treasury shares.

5.10 Share Plans

The IOOF Group operates a number of employee share and option schemes as set out below.

a) IOOF Executive Performance Share Plan

The IOOF Executive Performance Share Plan is the vehicle used to deliver equity based incentives to executives and senior employees of the IOOF Group.

Each employee receives IOOF Shares on vesting of the performance rights. No amounts are paid or payable by the recipient on receipt of the performance rights or on vesting.

The IOOF Group Remuneration and Nominations Committee regards the grant of performance rights to employees as an appropriate long-term incentive and retention component of total remuneration for executives and senior employees. It is expected that future annual grants of performance rights will be made, subject to the IOOF Board's determination of the overall performance of IOOF and market conditions. The vesting of any performance rights awarded will be subject to attainment of appropriate performance hurdles and on the basis of continuing employment with the IOOF Group.

Performance rights granted under the plan carry no dividend or voting rights, and all plans are equity-settled.

b) Non-Executive Director Share Purchase Plan

Each IOOF Non-Executive Director is eligible to participate in the Non-Executive Director Share Purchase Plan. The plan provides a facility for Non-Executive Directors to salary sacrifice their base salary or future incentive entitlements in order to acquire shares. As the purchase is funded by an IOOF Director's salary sacrifice, no additional expense is recorded.

c) Deferred Share Plan for the Managing Director

A short term incentive mandatory deferral program exists with equity deferral relating to a third of the Managing Directors' short term incentives for each year.

d) IOOF Executive and Employee Share Option Plan

The IOOF Group previously operated this plan as its principal ownership-based compensation scheme for executives and senior employees. The establishment of the employee share option plans were approved by the IOOF Board. Whilst there are unexercised options remaining, no options have been issued under this plan since August 2010.

Selected employees may be granted options which entitle them to purchase IOOF Shares at a price fixed at the time the options are granted. Voting and dividend rights are attached to IOOF Shares issued upon the exercise of the options. Options may be exercised at any time from the date of vesting to the date of their expiry.

The IOOF Group Remuneration and Nominations Committee regards the grant of options to employees as an appropriate long-term incentive and retention component of total remuneration for executives and senior employees. It is expected that future annual grants of options will be made, the vesting of which will be subject to attainment of appropriate performance hurdles and on the basis of continuing employment with the IOOF Group.

Options granted under the plan carry no dividend or voting rights, and all plans are equity-settled.

5.11 Rights and liabilities attached to IOOF Shares

Set out below is a summary of some of the key provisions in the IOOF Constitution in relation to the rights and liabilities attached to IOOF Shares. A full copy of the IOOF Constitution is available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of IOOF.

a) Meeting and voting rights

IOOF must hold an Annual General Meeting at least once every calendar year within five months of the end of IOOF's financial year (30 June). By resolution of the IOOF Board, a general meeting may be called in the manner determined by the IOOF Board and a meeting will be required to be called on the requisition of members with at least 5% of the votes that may be cast at the general meeting, or at least 100 members who are entitled to vote at the general meeting.

On a show of hands, each IOOF Shareholder present has one vote and on a poll, each IOOF Shareholder present in person, by proxy or attorney has one vote for each IOOF Share held.

Voting at any meeting of IOOF Shareholders is to be decided in the first instance by a show of hands.

Where a general meeting is convened and a quorum is not present within 30 minutes of the time specified in the notice of meeting, the meeting is dissolved unless the IOOF Board adjourns the meeting to a date, time and place determined by it. If no quorum is present at any adjourned meeting within 30 minutes after the time for the meeting, the meeting is dissolved.

An ordinary resolution requires the affirmative vote of IOOF Shareholders present in person or by proxy or attorney and holding shares conferring in the aggregate at least a majority of the votes cast on the ordinary resolution. In the case of an equality of votes, the Chairman has a casting vote.

A special resolution requires the affirmative vote of IOOF Shareholders present in person or by proxy or attorney and holding shares conferring in the aggregate at least 75% of the votes cast on the resolution.

Meetings are convened on advance notice of at least 28 days. Notices are required to be given to all IOOF Shareholders.

b) Directors

There must be no less than five and no more than eleven IOOF Directors. A majority of IOOF Directors must be Non-Executive Directors. The IOOF Board has the power to appoint, at any time, a person as an IOOF Director either to fill a casual vacancy or as an addition to the IOOF Board. Any IOOF Director appointed in such manner may only hold office until the end of the next Annual General Meeting of IOOF and is eligible for election at that meeting. Questions arising at any meeting of the IOOF Board are decided by a majority of votes and, in the case of an equality of votes, the Chairman of the meeting has a second or casting vote.

c) Preference shares

IOOF Shares may be issued with preferred, deferred or other special rights, obligations or restrictions, whether in regard to dividends, voting, return of share capital, payment of calls or otherwise, as the IOOF Board may determine and on any terms the IOOF Board considers appropriate, subject to the Corporations Act, the IOOF Constitution and any special rights previously conferred on holders of existing shares. Currently no IOOF Shares with preferential rights are on issue.

d) Dividends

The IOOF Board may determine that a dividend (including an interim dividend on account of the next forthcoming dividend) is payable to eligible IOOF Shareholders and fix the amount, time for payment and method of payment.

A summary of recent dividend payments on IOOF Shares is set out in section 5.12.

e) Liquidation

If IOOF is wound up, whether voluntarily or otherwise, the liquidator may divide among all or any of the contributories as the liquidator thinks fit in kind, any part of the assets of IOOF, and may vest any part of the assets of IOOF in trustees on any trusts for the benefit of all or any of the contributories as the liquidator thinks fit.

f) Pre-emptive rights

IOOF Shareholders do not have any pre-emptive rights under the IOOF Constitution. However, under the ASX Listing Rules, certain restrictions apply to a listed company placing its ordinary shares otherwise than on a pro rata basis among its shareholders.

g) Alteration to share capital

Without affecting any special rights conferred on the holders of any IOOF Shares, the IOOF Board may determine, on any terms it considers appropriate, to issue shares or other securities.

5.12 Dividends

a) Dividend policy and history

IOOF's current dividend policy is to pay dividends within a range of 60% to 90% of Underlying NPAT pre-amortisation on an annualised basis, with a goal of maximising fully franked dividends and distributing unutilised cash to shareholders.

The following table sets out the dividends paid by IOOF during the period from 1 July 2009 to 9 April 2014.

Payment Date	Dividend amount	Franked	Description
9 April 2014	\$0.225	100%	Interim dividend
16 October 2013	\$0.225	100%	Final dividend
10 April 2013	\$0.195	100%	Interim dividend
17 October 2012	\$0.18	100%	Final dividend
4 April 2012	\$0.19	100%	Interim dividend
20 October 2011	\$0.22	100%	Final dividend
23 March 2011	\$0.21	100%	Interim dividend
13 October 2010	\$0.18	100%	Final dividend
24 March 2010	\$0.17	100%	Interim dividend
16 October 2009	\$0.04	100%	Final dividend
31 July 2009	\$0.13	100%	Special dividend

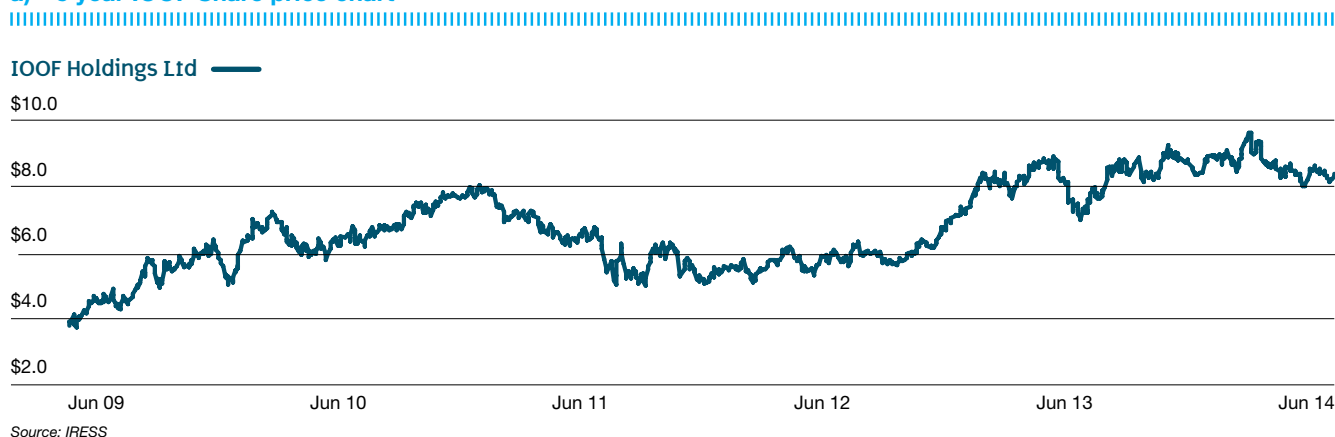
b) Dividend Reinvestment Plan

Under the IOOF Constitution, the IOOF Board may establish a dividend reinvestment plan. IOOF does not currently operate a dividend reinvestment plan.

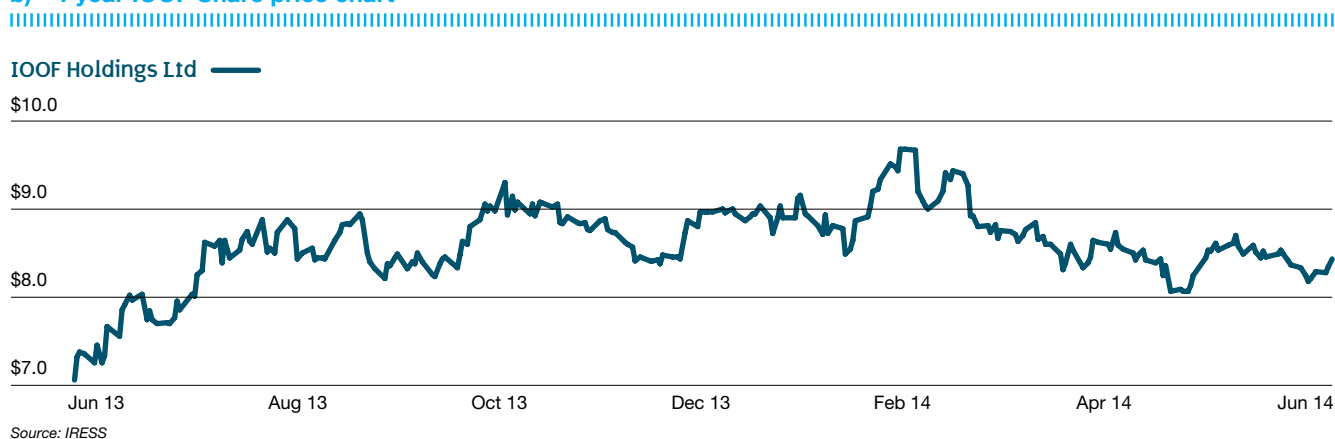
5.13 Recent IOOF share price performance

The charts below plot the price of IOOF Shares, both since July 2009 and July 2013.

a) 5 year IOOF Share price chart



b) 1 year IOOF Share price chart



The recorded closing price for IOOF Shares on the ASX on 25 June 2014, the last practicable Trading Day before the date of this Explanatory Memorandum, was \$8.44.

During the three months ended on 25 June 2014:

- > the highest recorded daily closing price for IOOF Shares on the ASX was \$8.85 on 31 March 2014; and
- > the lowest recorded daily closing price for IOOF Shares on the ASX was \$8.07 on 14 May 2014.

The closing price for IOOF Shares on the ASX on 15 May \$8.13.

5.14 Substantial shareholders

As at the close of trading on 25 June 2014, being the last practicable Trading Day before the date of this Explanatory Memorandum, IOOF had been notified of the following Relevant Interests of 5% or more in its issued securities:

- > Trust Company Fiduciary Services Ltd holds 27,834,878 IOOF Shares, representing 11.93% of issued IOOF Shares.

5.15 Share registry

IOOF's share registry is Boardroom Pty Limited of Level 7, 207 Kent Street, Sydney NSW 2000.

5.16 Public information available for inspection

As an ASX-listed company and a "disclosing entity" under the Corporations Act, IOOF is subject to regular reporting and disclosure obligations. Broadly these require it to announce price sensitive information to the ASX as soon as it becomes aware of the information subject to exceptions for certain confidential information. IOOF's most recent announcements are available from its website www.ioof.com.au. Further announcements concerning IOOF will continue to be made available on the website after the date of this Explanatory Memorandum.

The ASX maintains files containing publicly available information about entities listed on its exchange. IOOF's files are available for inspection at the ASX during normal business hours and are available on the ASX website www.asx.com.au.

Additionally, copies of documents lodged with ASIC in relation to IOOF may be obtained from or inspected at ASIC. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of IOOF:

- > the IOOF Constitution;
- > the IOOF 2013 Annual Report; and
- > any other document or financial statement lodged by IOOF with ASIC or the ASX under the continuous disclosure reporting requirements in the period after the lodgement of IOOF 2013 Annual Report and before the lodgement of this Explanatory Memorandum with ASIC.

Some of these documents are also available from IOOF's website www.ioof.com.au.

Information about the Combined Group



6.1 The Combined Group

The Combined Group will continue to provide wealth management solutions across IOOF's four primary divisions of financial advice and distribution services, platform management and administration, investment management and trustee services. However, these services will be able to be provided on an enhanced scale. Relevantly, following Implementation of the Scheme:

- > IOOF's FUMAS will increase from approximately \$123.9 billion to approximately \$155 billion¹;
- > the number of IOOF's advisers will increase by 19% from 937 to 1,119 advisers²;
- > the pro forma revenue of the Combined Group will be approximately \$842.2 million, compared to approximately \$685.7 million for IOOF on a stand-alone basis³;
- > IOOF's administration and advice proposition will be broadened, including in relation to the provision of accounting advice to small and medium enterprises;
- > IOOF's exposure to self-managed super funds and high net worth clients will be enhanced through SFGA's differentiated advice proposition which targets these particular segments;
- > the Combined Group will be able to capture revenue across the value chain, including advice, portfolio administration, accounting, insurance, self-managed super funds and investment management, which will be complemented by access to IOOF's platforms and products; and
- > the Combined Group will become the third largest advice business in Australia by "funds under advice" and one of the largest listed wealth management businesses in Australia.

6.2 IOOF's intentions

This section sets out IOOF's current intentions in respect of SFGA's business, assets, operations and employees.

The statements of intention contained in this section are based on information concerning SFGA and its business that is known to IOOF at the time of preparation of this Explanatory Memorandum either from publicly available sources or which IOOF obtained from SFGA in the form of the information made available to IOOF in the course of its due diligence in connection with the proposed acquisition.

IOOF intends to conduct a review of SFGA's operations to maximise profitability and value for IOOF shareholders. IOOF's final decision on these matters will only be reached in light of all material facts and circumstances at the relevant time and after having had the opportunity to review SFGA business in more detail after Implementation of the Scheme. Accordingly, the statements set out in the following sections are statements of current intentions only and may change as new information becomes available or circumstances change.

If the Scheme becomes Effective and IOOF comes to own 100% of SFGA Shares, the intentions of IOOF are described below.

a) Corporate matters

IOOF currently intends to seek to have SFGA removed from the official list of the ASX once the Scheme is Implemented.

On the Implementation Date, but subject to IOOF having provided the Scheme Consideration in accordance with the Scheme Implementation Agreement, SFGA must:

- i) cause the appointment to the SFGA Board, and to the boards of each Subsidiary of SFGA, those persons as nominated by IOOF; and
- ii) procure that all SFGA Directors, and the directors of each Subsidiary of SFGA, resign from the SFGA Board and each Subsidiary of SFGA.

IOOF nominees have not yet been confirmed and their identity will depend on the circumstances at the relevant time.

b) Implementation and transition

IOOF intends to establish a transition team to manage the smooth transition of SFGA into the IOOF Group to minimise disruption to the business.

c) Integration

IOOF currently intends to:

- > integrate the operations of SFGA into IOOF in an effort to remove duplication, extract synergies and make those operations more efficient and profitable and improve and expand the range of offerings available to clients of both IOOF and SFGA;
- > consolidate and migrate SFGA's IT systems into IOOF's technology environment, leveraging IOOF's IT systems to provide modern IT infrastructure and service and capability improvements with reduced cost;
- > centralise and consolidate shared services functions and remove duplicate support infrastructure to improve efficiency and enhance economies of scale; and
- > maintain IOOF's current head office in Melbourne, Australia and co-locate offices, where able and deemed appropriate.

IOOF estimates that pre-tax synergies of at least \$15 million⁴ are able to be achieved by 1 July 2016 as a result of removing duplication across both the corporate and business unit level, consolidating and migrating IT systems and platforms and centralising and consolidating shared services functions.

d) Employees

Anthony Fenning, James Kilkenny and John Gannon, all currently SFGA Directors, have agreed to join a new advisory forum set up by IOOF to advise the SFGA businesses following the Implementation of the Scheme.

Following Implementation of the Scheme, Anthony Fenning will step down as Managing Director of SFGA. Mr Fenning has agreed to continue his employment with SFGA as a specialist adviser for a period of 12 months after the Implementation Date. In this role, Mr Fenning will provide specialist advice to the Combined Group in respect of strategic matters pertaining to the Combined Group.

1) Based on SFG and IOOF's respective FUMAS as at 31 March 2014.

2) Based on SFG and IOOF's respective number of advisers as at 16 May 2014.

3) Based on SFG and IOOF's respective revenue as at 30 June 2014.

4) This figure relates to estimated cost savings and excludes potential revenue synergies of an estimated \$5 million.

Mr Fenning's gross remuneration will be maintained at its current level until the Implementation Date and from the Implementation Date will be \$1 million gross per annum (inclusive of superannuation). The agreement with Mr Fenning is conditional upon the Scheme being Implemented and accordingly his remuneration will effectively be payable by IOOF under its continuing ownership of SFGA post-Implementation of the Scheme. The agreement was negotiated between IOOF and Mr Fenning, and his remuneration was determined after the terms of the Scheme Implementation Agreement were agreed (including the Scheme Consideration terms) and is considered to be within the range of remuneration for a position of this type and for a person with his expertise and experience, as determined by the market.

Decisions in relation to other, existing SFGA resources and staff will be made once IOOF has had the opportunity to review SFGA's business in more detail after Implementation of the Scheme. IOOF expects that combining IOOF and SFGA will result in duplication across a number of areas of the business, including employee roles. To create value for shareholders, IOOF intends to remove these duplications with the aim of delivering the expected synergy benefits. IOOF intends to manage the duplication of roles on a case by case basis through merit based selection, direct appointment, re-assignment and/or natural attrition. Where redundancies do occur across the combined business, IOOF will recognise and comply with the severance and redundancy terms of all relevant employment contracts and industrial agreements or awards. In instances where existing roles are declared vacant or new roles are created across the combined business, IOOF will use a merit based selection process to fill the roles.

e) Dividends

IOOF currently intends to maintain its dividend policy which is to pay dividends within a range of 60% to 90% of Underlying NPAT on an annualised basis, with a goal of maximising fully franked dividends and distributing unutilised cash to IOOF Shareholders. The dividend policy is designed to be sustainable over the long term, while providing the Combined Group with an appropriate degree of financial flexibility. The acquisition of SFGA will naturally incur transaction expenses, predominantly in the first 12 to 18 months.

There may also be additional charges after the acquisition due to the requirement to amortise identifiable intangible assets. These charges are of a non-cash nature and are not expected to affect IOOF's future cash flows. Consistent with IOOF's prior practice, IOOF expects to exclude the impact of certain significant items from NPAT in determining dividends.

IOOF remains committed, including after any acquisition, to its objective of maximising the efficient return of surplus capital, as appropriate, to shareholders.

f) SFGA's model and brands

IOOF intends to maintain the Group's client facing brands, operating model and client proposition such that it will be largely "business as usual" for SFGA following Implementation of the Scheme. Additionally, IOOF intends to facilitate the access of SFGA's clients to IOOF's products and services.

6.3 Pro Forma Historical Financial Information

This section contains the following pro forma historical financial information for the Combined Group, which is comprised of the:

- > unaudited Combined Group pro forma income statement for the 12 months ended 30 June 2013;
- > unaudited Combined Group pro forma income statement for the 6 months ended 31 December 2013, (together the **Pro Forma Historical Income Statements**); and
- > unaudited Combined Group pro forma balance sheet as at 31 December 2013 (the **Pro Forma Historical Balance Sheet**),

(collectively, the **Pro Forma Historical Financial Information**).

The directors of IOOF are responsible for the preparation and presentation of the Pro Forma Historical Financial Information.

The Pro Forma Historical Financial Information in this section should also be read in conjunction with the risk factors set out in section 7 and other information included in this Explanatory Memorandum.

IOOF has been subject to certain limitations in preparing the Pro Forma Historical Financial Information. In particular:

- > IOOF management has had only limited access to financial information of SFGA and no access to the supporting documentation and systems from which that financial information has been derived; and
- > IOOF management has not had an opportunity to assess the fair values of the identifiable assets and liabilities of SFGA, and therefore has not been able to ensure that the Transaction has been accounted for in accordance with AASB3 "Business Combinations".

KPMG Transaction Services has prepared an Investigating Accountant's Report in relation to the compilation of the Pro Forma Historical Financial Information which has been included as Annexure B. SFGA Shareholders should note the comments made in relation to the scope and limitations of this report.

The Pro Forma Historical Financial Information is not intended to reflect the financial performance or the financial position that would have actually resulted had the Scheme been completed on the dates indicated, or the results that may be obtained in the future. If the Transaction had occurred in the past, the Combined Group's financial performance and financial position would likely have been different from that presented in the Pro Forma Historical Financial Information. Due to the nature of pro forma information, it may not give a true picture of the Combined Group's financial performance and financial position. The Pro Forma Historical Financial Information is not represented as being indicative of IOOF's view on its future financial performance or future financial position. All amounts disclosed in the tables are rounded to the nearest thousand dollars, unless otherwise noted and totals may be subject to rounding.

a) Basis of Preparation

The Pro Forma Historical Financial Information is provided for illustrative purposes and has been presented in an abbreviated form, insofar as it does not contain all the presentation and disclosures required by the Australian Accounting Standards applicable to annual financial reports and has not been prepared in accordance with the Corporations Act.

i) Pro Forma Historical Income Statements

The Pro Forma Historical Income Statements have been compiled by IOOF to illustrate the impact of the Transaction on IOOF's financial performance:

- > for the year ended 30 June 2013 as if the Transaction had taken place on 1 July 2012; and
- > for the six months ended 31 December 2013 as if the Transaction had taken place on 1 July 2013.

The Pro Forma Historical Income Statements are based on the following information:

- > IOOF audited financial statements for the full year ended 30 June 2013 and IOOF reviewed financial statements for the half year ended 31 December 2013;
- > SFGA audited financial statements for the full year ended 30 June 2013 and SFGA reviewed financial statements for the half year ended 31 December 2013; and
- > Other supplementary information as was considered necessary to reflect the pro forma adjustments (discussed below).

Certain elements of SFGA's historical income statements have been reclassified to conform to the financial statement presentation used by IOOF. Items reclassified on SFGA's historical income statement are disclosed in the notes to the unaudited Pro forma Historical Income Statement.

ii) Pro Forma Historical Balance Sheet

The Pro Forma Balance Sheet has been compiled by IOOF to illustrate the impact of the Transaction on IOOF's financial position as at 31 December 2013 as if the Transaction had taken place on 31 December 2013.

The Pro Forma Historical Balance Sheet is based on the following information:

- > IOOF reviewed financial statements for the half year ended 31 December 2013;
- > SFGA reviewed financial statements for the half year ended 31 December 2013; and
- > Other supplementary information as was considered necessary to reflect the pro forma adjustments (discussed below).

Certain elements of SFGA's historical balance sheet have been reclassified to conform to the financial statement presentation used by IOOF. Items reclassified on SFGA's historical balance sheet are disclosed in the notes to the unaudited Pro forma Historical Balance Sheet.

6.4 Pro Forma Adjustments

The Pro Forma Historical Financial Information has been prepared for illustrative purposes only, to show the impact of the Transaction as follows:

- > Acquisition debt financing facility to fund cash equivalent Scheme Consideration up to a maximum of \$100 million in aggregate;
- > The acquisition of SFGA's remaining shares not subject to the cash consideration for IOOF Shares at the exchange ratio of 0.104¹ New IOOF Shares for each SFGA Share;
- > Payment of the SFGA FY14 Interim Dividend of 1.4 cents per share fully franked to existing Shareholders as declared by SFGA on 25 February 2013; and
- > Transaction costs associated with the Transaction.

Adjustments relating to the impact of acquisition accounting

The Pro Forma Historical Financial Information has been accounted for using acquisition accounting methods required by AASB3 "Business Combinations" (AASB3) except as noted in the assumptions below. AASB3 requires that all identifiable assets (including intangible assets and deferred tax balances) and liabilities that meet certain recognition criteria should be recognised separately in the consolidated financial statements of the Combined Group.

On completion, the excess of the cost of the acquisition over and above the net fair value of the identifiable assets and liabilities should be recognised as goodwill. This goodwill amount will only be measured and recognised once the Transaction occurs. Similarly, the identification and valuation of other identifiable intangible assets will not be possible until after the completion of the acquisition. Australian Accounting Standards allow a period of 12 months to finalise the accounting adjustments from the date of acquisition.

For the purposes of calculating the intangible assets and goodwill for the Combined Group on consolidation, the book value of SFGA's assets and liabilities, as reported in the reviewed accounts as at 31 December 2013, is assumed to be equal to their fair value at the date of acquisition.

The amount of total intangible assets, including goodwill and the recognition of any deferred tax assets or liabilities which may arise as a result of the fair value adjustments, is subject to IOOF finalising its fair value assessment of all assets and liabilities as at the acquisition date.

For the purposes of the Pro Forma Historical Income Statement, as the fair value of the acquired intangible assets of SFGA has not been established, it has not been possible for IOOF to perform an accurate assessment of the amortisation charge relating to those intangible assets as required by AASB138 "Intangible Assets". As such, no adjustments have been made to reflect the impact of acquisition accounting. The expected impact of adopting acquisition accounting on the Pro Forma Historical Income Statement of the Combined Group may include a non-cash amortisation charge for intangible assets with a finite life.

¹) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

The value of the consideration issued to SFGA will be measured as follows:

- > Equity component – the value of IOOF Shares at close of trading on the Implementation Date. For the purposes of the Pro Forma Historical Financial Information, a value of \$8.13 per IOOF Share has been assumed, being the closing price of IOOF Shares on 15 May 2014, the day prior to the Announcement Date.
- > Cash alternative – calculated based on the VWAP of IOOF Shares over the 10 Trading Days immediately before the Scheme Meeting (subject to a maximum of \$100 million in aggregate).

The ultimate value of the purchase consideration for accounting purposes as at the Implementation Date may differ from the amount assumed for the purposes of the Pro Forma Historical Financial Information.

Accounting Policies

In preparing the Pro Forma Historical Financial Information, IOOF has undertaken a review to identify accounting policy differences where the impact was potentially material to the Combined Group and could be reliably estimated. No such material differences have been identified by IOOF, however further accounting policy differences may be identified after the Implementation of the Scheme.

Purchase Consideration

IOOF has offered 0.104¹ of an IOOF Share as consideration for each SFGA Share. IOOF has also provided SFGA Shareholders the option to Elect to receive some or all of their consideration wholly in New IOOF Shares or in cash (calculated based on the VWAP of IOOF Shares over the 10 trading days immediately before the Scheme Meeting) subject to a maximum cash component of \$100 million in aggregate. The Pro Forma Historical Financial Information has been prepared assuming SFGA Shareholders Elect to receive the Maximum Cash Consideration of \$100 million with the balance of consideration paid in New IOOF Shares.

a) Pro Forma Historical Income Statements

(\$000)	IOOF year ended 30 Jun 2013	SFG year ended 30 Jun 2013	Pro forma adjustments	Note	Combined Group	IOOF six months ended 31 Dec 2013	SFG six months ended 31 Dec 2013	Pro forma adjustments	Note	Combined Group
External management and service fee revenue	582,936	151,578			734,514	311,287	87,165			398,452
External other fee revenue	27,584	—			27,584	14,362	—			14,362
Service fees and other direct costs	(244,319)	(20,641)			(264,960)	(130,685)	(10,078)			(140,763)
Amortisation of deferred acquisition costs	(5,786)	—			(5,786)	(1,181)	—			(1,181)
Gross margin	360,415	130,937	—		491,352	193,783	77,087	—		270,870
Stockbroking revenue	64,429	2,264			66,693	37,669	1,288			38,957
Stockbroking service fees expense	(38,264)	(308)			(38,572)	(22,487)	(151)			(22,638)
Stockbroking contribution	26,165	1,956	—		28,121	15,182	1,137	—		16,319
Other external revenue	4,778	1,794			6,572	2,361	1,615			3,976
Finance income	5,984	884			6,868	2,606	413			3,019
Share of profits of associates accounted for using the equity method (net of income tax)	7,700	296			7,996	3,738	207			3,945
Operating expenditure	(257,125)	(91,471)			(348,596)	(127,919)	(50,415)			(178,334)
Share-based payments expense	(5,657)	(340)			(5,997)	(2,766)	(457)			(3,223)
EBITDA	142,260	44,056	—		186,316	86,985	29,587	—		116,572
Finance costs	(4,007)	(1,626)	(3,950)	1	(9,583)	(1,747)	(1,188)	(1,975)	1	(4,910)
Depreciation	(4,451)	(1,304)			(5,755)	(2,106)	(604)			(2,710)
Amortisation	(23,604)	(5,162)			(28,766)	(12,843)	(3,079)			(15,922)
Life statutory revenue	84,682	—			84,682	45,653	—			45,653
Life statutory expenses	(65,115)	—			(65,115)	(31,077)	—			(31,077)
Reported profit before income tax	129,765	35,964	(3,950)		161,779	84,865	24,716	(1,975)		107,606
Income tax (expense)/benefit – shareholder	(29,766)	(11,817)			(41,583)	(21,158)	(7,542)			(28,700)
Income tax (expense)/benefit – statutory	(19,567)	—			(19,567)	(14,576)	—			(14,576)
Reported profit for the period	80,432	24,147	(3,950)		100,629	49,131	17,174	(1,975)		64,330

Notes to the Pro Forma Historical Income Statements

Reclassifications

Reclassifications of SFGA's historical income statement to conform to the historical income statement presentation used by IOOF include reclassification of:

- > Revenue from continued operations and other income to 'external management and service fee revenue', 'stockbroking revenue', 'other external revenue' and 'finance income'; and
- > Statutory operating expenses to 'Service fees and other direct costs', 'operating expenditure', 'share based payments expense', 'stockbroking service fees expense', 'other external revenue' and 'finance income'.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

Pro Forma adjustments

- 1) Additional financing costs associated with maximum cash consideration (\$100 million) funded through an acquisition debt facility.

Acquisition accounting

For the purposes of the Pro Forma Historical Income Statements, as the fair value of the acquired intangible assets of SFGA has not been established, it has not been possible for IOOF to perform an accurate assessment of the amortisation charge relating to those intangible assets as required by AASB138 "Intangible Assets". As such, no adjustments have been made to reflect the impact of acquisition accounting. The expected impact of adopting acquisition accounting on the Pro Forma Historical Income Statement of the Combined Group may include a non-cash amortisation charge for intangible assets with a finite life.

b) Pro Forma Historical Balance Sheet

(\$000)	IOOF statutory consolidated balance sheet as at 31 Dec 2013	SFG statutory consolidated balance sheet as at 31 Dec 2013	Pro forma adjustments	Note	Pro forma combined balance sheet as at 31 Dec 2013
Assets					
Cash and cash equivalents	82,460	29,389	(22,213)	3,4	89,636
Receivables	78,043	20,779	—		98,822
Other financial assets	58,664	678	—		59,342
Other assets	19,801	1,059	—		20,860
Equity accounted investees	26,946	4,167	—		31,113
Property and equipment	10,471	3,979	—		14,450
Deferred tax asset	—	5,635	—		5,635
Intangible assets	872,102	186,562	472,488	1,3	1,531,152
Assets relating to statutory funds	857,305	—	—		857,305
Total assets	2,005,792	252,248	450,274		2,708,314
Current liabilities					
Payables	54,458	19,458	—		73,916
Current tax liabilities	18,687	1,450	—		20,137
Other liabilities – current	3,390	—	—		3,390
Provisions – current	36,806	9,982	—		46,788
Other financial liabilities – current	2,567	4,037	—		6,604
Borrowings – current	90,591	530	—		91,121
Total current liabilities	206,499	35,457	—		241,956
Non current liabilities					
Other liabilities – non-current	6,370	—	—		6,370
Provisions – non-current	6,575	1,026	—		7,601
Other financial liabilities – non-current	25,689	11,010	—		36,699
Borrowings – non-current	20,735	22,156	99,515	1,2	142,406
Deferred tax liabilities	60,782	12,045	—		72,827
Liabilities relating to statutory funds	857,305	—	—		857,305
Total non-current liabilities	977,456	46,237	99,515		1,123,208
Total liabilities	1,183,955	81,694	99,515		1,365,164
Net assets	821,837	170,554	350,759		1,343,150
Equity					
Share capital	867,307		525,863	1	1,393,170
Reserves	(2,216)		—		(2,216)
Accumulated losses	(56,096)		(4,550)	4	(60,646)
Total equity attributable to equity holders of the Group	808,995		521,313		1,330,308
Non-controlling interests	12,842		—		12,842
Total equity	821,837		521,313		1,343,150

Notes to Pro Forma Historical Balance Sheet

Reclassifications

Reclassifications of SFGA's historical balance sheet to conform to the historical balance sheet presentation used by IOOF include reclassification of:

- > Deferred consideration to other current and non current financial liabilities;
- > Work in Progress to other assets; and
- > Financial assets held at fair value through profit and loss to other financial assets.

Pro forma adjustments

- 1) The Pro Forma Historical Balance Sheet of the Combined Group is presented as if the Transaction had occurred on 31 December 2013. The acquisition adjustments assume:
 - > an IOOF share price of \$8.13 (being the closing price of IOOF shares on 15 May 2014, the day prior to the announcement of the Scheme Implementation Agreement). For the purposes of analysing the impact of the cash component of the purchase price it is assumed that the 10 day VWAP is equal to \$8.13 (i.e. closing price on 15 May 2014).
 - > The total number of SFGA Shares to be acquired is 741.0 million which has been determined as 734.5 million shares on issue and 6.5 million performance rights, all of which for the purposes of calculating the consideration are assumed will vest at the acquisition date. It is assumed no other SFGA Shares will be issued.
 - > SFGA Shareholders Elect to receive the maximum available cash consideration of \$100 million.
 - > For the balance of shares not subject to the maximum cash consideration, Scheme Shareholders receive New IOOF Shares for their consideration at an exchange ratio of 0.104 New IOOF Shares for every SFGA Share.

The calculation of intangible assets and goodwill is as follows:

Number of SFGA shares on issue at acquisition date	741,033,073
Exchange ratio of shares in IOOF to SFGA shares	0.104 ¹
IOOF Share price as at 15 May 2014	\$8.13
Total consideration value based on the IOOF share price as at 15 May 2014	\$626.6 million
Assumed cash component of total consideration	\$100.0 million
Equity component of total consideration	\$526.6 million
SFGA Net Assets as at 31 December 2013	\$170.6 million
Less: FY14 interim dividend (refer to note 3 below)	\$10.3 million
Less: Pre-existing goodwill on SFGA's historical balance sheet	\$146.8 million
Less: SFGA transaction costs incurred	\$6.2 million
Adjusted Pro Forma Historical SFGA Net Assets	\$7.2 million
Goodwill and intangibles on acquisition	\$619.3 million

A 1% movement in IOOF's share price equates to a change in the value of consideration by approximately \$6.3 million. At the IOOF closing share price of \$8.44 on 25 June 2014, the total value of new IOOF shares to be issued to SFGA Shareholders would be \$550.4 million assuming SFGA Shareholders Elect to receive the maximum available cash consideration.

If SFGA Shareholders do not Elect to receive any of the cash consideration alternative (\$100 million), IOOF will increase the equity consideration by approximately 12.3 million shares (based on an assumed share price of \$8.13), increasing shareholders equity by \$100.0 million, reducing non-current borrowings by \$99.5 million and increasing cash reserves by \$0.5 million.

- 2) As outlined in section 3.6 of this Explanatory Memorandum IOOF intends to finance the maximum cash consideration from a committed acquisition debt facility. The effect of this is an increase to non-current borrowings of \$100 million less Transaction costs of \$0.5 million.
- 3) SFGA announced on 25 February 2014 and subsequently paid an interim dividend of 1.4 cents per share on 23 April 2014. This amount has been included in the Combined Group Pro Forma Historical Balance Sheet reducing cash by \$10.3 million.
- 4) Cash has been reduced by \$11.9 million of estimated transaction costs incurred by IOOF (approximately \$5.7 million) and SFG (approximately \$6.2 million). In accordance with accounting standards, IOOF transaction costs (\$4.6 million) not directly related to the equity raising or establishment of new debt have been recognised in accumulated losses.

1) The exchange ratio of 0.104 will be subject to an adjustment if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to give Scheme Shareholders the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme. To ensure that Scheme Shareholders receive the value attributable per share under the Scheme had the record date for the IOOF FY14 Dividend not occurred before the Implementation of the Scheme a corresponding deduction, as required, to the IOOF VWAP will also take place. On the current timetable, it is not anticipated that any adjustment will be required to be made in respect of the IOOF FY14 Dividend.

Ordinary dividends

IOOF paid on 9 April 2014 a fully franked interim dividend of 22.5 cents per share (\$52.3 million) for the year ended 30 June 2014 in the ordinary course of business since its last reported balance sheet date.

Investments

On 15 April 2014 IOOF disposed of its investment in Equity Trustees Limited (**EQT**) for total consideration of \$20.5 million.

6.5 Pro Forma Historical Underlying Profit After Tax

The Pro forma historical underlying profit after tax (**UPAT**) is based on the following information:

- > the IOOF 2013 Annual Report;
- > the IOOF Interim Financial report for the 6 months to 31 December 2013;
- > the SFGA 2013 Annual Report; and
- > the SFGA Interim Financial report for the 6 months to 31 December 2013.

UPAT attributable to equity holders of IOOF excludes certain items, as determined by IOOF's Board and management, that are either significant by virtue of their size and impact on statutory NPAT attributable to equity holders of IOOF, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group. UPAT has been calculated in accordance with the AICD/FINSIA principles for reporting underlying profit and ASIC's Regulatory Guide 230 – Disclosing non-IFRS financial information. UPAT has not been audited or reviewed. However the adjustments to UPAT have been extracted from the books and records that have been audited or reviewed.

Pro Forma Historical Underlying Profit After Tax

(\$000)	IOOF year ended 30 Jun 2013	SFG year ended 30 Jun 2013	Pro forma adjustments	Combined Group	IOOF six months ended 31 Dec 2013	SFG six months ended 31 Dec 2013	Pro forma adjustments	Combined Group
Reported net profit after tax	80,432	24,147	(3,950)	100,629	49,131	17,174	(1,975)	64,330
Amounts attributable to minority interest holders	(663)	—	—	(663)	(950)	—	—	(950)
Net profit after tax attributable to shareholders	79,769	24,147	(3,950)	99,966	48,181	17,174	(1,975)	63,380
Acquisition related costs	838	2,970	—	3,808	—	679	—	679
One-off, non-operational items	—	1,050	—	1,050	—	(1,466)	—	(1,466)
Amortisation expense	23,604	5,162	—	28,766	12,152	3,079	—	15,231
Impairment of investment in associate	4,578	923	—	5,501	—	—	—	—
Notional funding cost of deferred consideration	—	812	—	812	—	494	—	494
Termination and retention incentive payments	6,534	—	—	6,534	1,518	—	—	1,518
Recognition of Plan B onerous lease contracts	2,962	—	—	2,962	—	—	—	—
Unwind of deferred taxes on intangible assets	(5,435)	—	—	(5,435)	(2,758)	—	—	(2,758)
Reinstatement of Perennial non-controlling interest	(993)	—	—	(993)	(638)	—	—	(638)
Income tax attributable	(3,101)	(2,552)	—	(5,653)	(455)	(801)	—	(1,256)
Underlying net profit after tax	108,756	32,512	(3,950)	137,318	58,000	19,159	(1,975)	75,184

UPAT adjustments**Acquisition related costs**

IOOF – One-off payments to external advisers by both Plan B and IOOF in pursuit of a successful acquisition which are not reflective of conventional recurring operations.

SFGA – one off expenses incurred in relation to the acquisitions such as W Corp, Parkside, Lachlan Partners and Pindi and other merger and acquisition opportunities investigated or in progress.

One-off, non operational items

SFGA – These are primarily acquisition related including one-off integration and restructuring costs, and any adjustments to deferred consideration.

Amortisation expense

IOOF – Non-cash entry reflective of declining intangible asset values over their useful lives. The absence of a corresponding entry for intangible asset creation results in a conservative one sided decrement to profit only.

SFGA – Amortisation of intangible assets arising from acquisitions. The intangible assets are being amortised over their useful life. The amortisation has no cash flow impact.

Impairment

IOOF – Non-cash entry which reflects a point in time valuation of assets which is unable to be reversed to profit in future periods should the original value prove to be restored. The entry is not related to the conventional recurring operations of the IOOF Group.

SFGA – In the half year ended 31 December 2012, SFGA recorded an impairment of \$0.9m in relation to its investment in Duncan Dovico Holdings Pty Limited. The investment was written down to a carrying value of \$2.3m.

Notional funding cost of deferred consideration

SFGA – Some of the acquisitions have deferred payments subject to certain performance hurdles being met over a period of time after they have been acquired. The present value of the deferred payments have been recognised on the balance sheet and the time value or notional interest from acquisition date to the expected payment date is recognised over the deferred period.

Termination and retention incentive payments

IOOF – Facilitation of restructuring to ensure long term efficiency gains.

Recognition of Plan B onerous lease contracts

IOOF – Non-cash entry to record the estimated present value of expected costs of meeting the obligations under contracts where the costs exceed the economic benefits expected to be received pursuant to the contracts.

Unwind of deferred taxes on intangible assets

IOOF – the unwind of deferred tax liabilities recognised in relation to acquired intangible assets not considered part of IOOF's recurring operations nor likely to be realised due to IOOF's intention to hold the related assets long term.

Reinstatement of Perennial non-controlling interest

IOOF – Adjustment relating to the change in value of the non-controlling interest holders share in Perennial subsidiaries as if there was no embedded derivatives, which are required to be recognised under IFRS, to better reflect the economic interests of those shareholders in the activities of those companies.

Income tax attributable

IOOF – Income tax applicable to certain adjustment items outlined above.

SFGA – Income tax applicable to certain adjustment items outlined above.

6.6 Ownership of IOOF after Implementation

The ownership structure of IOOF as between current IOOF Shareholders and SFGA Shareholders will depend on the number of SFGA Shareholders that Elect to receive all or part of their Scheme Consideration as Maximum Cash Consideration. After the Implementation Date, SFGA Shareholders will hold between 22% and 25% of issued IOOF Shares (excluding any IOOF Shares which a Scheme Shareholder holds prior to the Implementation Date).

Risks



The Transaction presents a number of potential risks that SFGA Shareholders should consider when deciding how to vote on the Scheme and in deciding whether to Elect the Share Consideration or the Maximum Cash Consideration.

If the Scheme proceeds, Scheme Shareholders will receive New IOOF Shares (unless they Elect to receive the Maximum Cash Consideration (and then only to the extent that the scale back provisions do not apply) and unless they are an Ineligible Overseas Shareholder whose entitlement will be dealt with as set out in section 3.5(m) of this Explanatory Memorandum) and will therefore be exposed to the risks associated with an investment in the Combined Group.

If the Scheme does not proceed, SFGA will continue to be subject to a number of risks and uncertainties. The outline of risks in this section is a summary only and should not be considered exhaustive. This section does not take into account your investment objectives, financial situation, taxation position or particular needs.

You should carefully consider the risk factors discussed in this section, as well as the other information contained in this Explanatory Memorandum before voting on the Scheme. If you are unclear in relation to any matter or uncertain if IOOF Shares are a suitable investment for you, you should seek independent professional advice.

7.1 Risks specific to the Scheme and creation of the Combined Group

a) Value of the Scheme Consideration is not certain

Under the terms of the Scheme, Scheme Shareholders will receive either a specified number of New IOOF Shares, the cash equivalent of a specified number of IOOF Shares based on the IOOF VWAP, or a mixture of both. As a result, the value of the Scheme Consideration will fluctuate depending on the market value of IOOF Shares.

For Scheme Shareholders who Elect to receive the Maximum Cash Consideration, the value will depend on the price at which IOOF Shares trade on the ASX in the 10 Trading Days prior to the Scheme Meeting. In addition, Scheme Shareholders who Elect to receive their Scheme Consideration as the Maximum Cash Consideration may in fact receive some New IOOF Shares as the total amount of cash available to provide the Maximum Cash Consideration is subject to a cap of \$100 million. Where the total amount of the Maximum Cash Consideration a Scheme Shareholder is entitled to receive is scaled back, Scheme Shareholders will receive New IOOF Shares with a value (calculated based on the VWAP of IOOF Shares for the 10 Trading Days before the Scheme Meeting) equal to the amount by which the Maximum Cash Consideration that the Scheme Shareholder was entitled to receive was scaled back. The issue of such additional shares may further dilute the value of IOOF Shares issued under the Scheme.

Information regarding the Scheme Consideration and the scale back of the Maximum Cash Consideration is set out in section 3.2 of the Explanatory Memorandum.

For Scheme Shareholders who receive Share Consideration, the value of the New IOOF Shares will fluctuate depending on the price at which IOOF Shares trade on the ASX after the Implementation Date.

For Ineligible Overseas Shareholders, the value of the consideration they will receive will depend on the price, net of sale expenses, realised by the Sale Nominee in respect of the sale of New IOOF Shares attributable to the Ineligible Overseas Shareholders.

Some Scheme Shareholders may not intend to continue to hold the New IOOF Shares received and may wish to sell them on the ASX soon after the Implementation Date. In addition, the Sale Nominee will sell New IOOF Shares attributable to Ineligible Overseas Shareholders on market as soon as reasonably practicable after the Implementation Date. There is a risk that such sales may exert downward pressure on the price of IOOF Shares in the short term.

In any event, there is no guarantee regarding the market price of IOOF Shares either in the period before the Scheme Meeting or after the Implementation Date. Future market prices may be either above or below current or historical market prices.

b) Integration and synergies

There is a risk that the Combined Group's success and profitability could be adversely affected if SFGA's business is not integrated effectively. There is a risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated. Any failure to achieve targeted synergies may impact on the financial performance and position of the Combined Group and the future price of IOOF Shares. Possible problems may include:

- i) differences in management culture between the two organisations;
- ii) unanticipated costs or delays relating to integration of IT, information or accounting systems;
- iii) loss of key personnel; and
- iv) timing for realisation or disposal of surplus infrastructure.

c) Contract risk

Some contracts to which SFGA or its Subsidiaries are a party may contain 'change of control' provisions (or equivalent) that could be triggered by Implementation of the Scheme, allowing the counterparty to renegotiate or terminate the contract.

If a counterparty to any such contract were to terminate or seek to renegotiate the contract this may have an adverse effect on the Combined Group, depending on the relevant contract.

d) Change in risk and investment profile

Scheme Shareholders that receive Share Consideration will receive New IOOF Shares in exchange for their SFGA Shares. An investment in IOOF is not an identical substitute for an investment in SFGA as the Combined Group will have a different risk and investment profile.

SFGA Shareholders will be exposed to risk factors relating to IOOF, and to certain risks relating to the Combined Group. In some cases, those risks are different from or additional to those related to SFGA. See section 7.2 for details of the risks relating to the Combined Group.

The investment profile for SFGA Shareholders will also change. While the operations of IOOF and SFGA are similar in a number of ways the operational profile, capital structure and size of the Combined Group will be different from that of SFGA on a standalone basis.

These changes in risk and investment profile may be considered a disadvantage by some SFGA Shareholders.

e) Impairment of intangible assets

In accounting for the Transaction, IOOF will need to perform a fair value assessment of SFGA's assets (including intangible assets) and liabilities. To the extent goodwill and indefinite life intangible assets are recognised in respect of accounting for the acquisition, they will be subject to annual impairment testing. Other identifiable intangible assets are amortised and assessed for any indicators of impairment in each reporting period. In the event that the recoverable amount of intangible assets is impaired, this will result in an additional expense in the income statement of the Combined Group.

f) Tax consequences

If the Scheme proceeds, there may be tax consequences for Scheme Shareholders. Please refer to section 8 of this Explanatory Memorandum for tax implications. Scheme Shareholders should seek their own independent professional advice regarding the individual tax consequences applicable to them.

g) Risks of trading during deferred settlement trading period

Scheme Shareholders will not necessarily know the exact number of New IOOF Shares that they will receive (due to rounding and possible adjustments if the record date for the IOOF FY14 Dividend occurs before the Implementation of the Scheme) until a number of days after those shares can be traded on the ASX on a deferred settlement basis. SFGA Shareholders who trade IOOF Shares on a deferred settlement basis, may risk adverse financial consequences if they purport to sell more IOOF Shares than they receive under the Scheme.

h) Risks if the Scheme does not proceed

If the Scheme does not proceed and no other acceptable proposal is received, SFGA will continue on a standalone basis and SFGA Shareholders will retain their SFGA Shares. In these circumstances there is a risk that SFGA Shares may trade below their current market price. SFGA will have incurred significant transaction costs in relation to the proposed Scheme even if it does not proceed.

In addition, under the Scheme Implementation Agreement SFGA is required to pay a break fee of \$6 million to IOOF if the Scheme does not proceed in certain circumstances. Information in relation to the Scheme Implementation Agreement and the Break Fee is set out in section 3.4 of this Explanatory Memorandum.

7.2 Risks of the Combined Group**a) Changes in investment markets**

The Combined Group will derive a significant proportion of its earnings from fees and charges based on the level of FUMAS of the Combined Group. The level of FUMAS will reflect (in addition to other factors such as the amount of funds flowing into and out of FUMAS) the investment performance of those funds. Therefore, changes in domestic and/or global investment market conditions could lead to a decline in the Combined Group's FUMAS, adversely impacting the amount it earns in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the Combined Group's financial products and services.

b) Competition

There is substantial competition for the provision of financial services in the markets in which the Combined Group will operate. The Combined Group must compete with a variety of market participants in specialised investment fund management, wealth advice and corporate trustee services. These market participants compete vigorously for customer investments and the provision of wealth management services. These competitive market conditions may adversely impact on the earnings and assets of the Combined Group.

c) Information Technology

Generally, the Combined Group will rely heavily on information technology. Therefore, any significant or sustained failure in the Combined Group's core business or technology systems could have a materially adverse effect on the Combined Group's operations in the short term, which in turn could undermine longer term confidence in the Combined Group and impact the future profitability and financial position of the Combined Group.

d) Brands and reputation

The capacity of the Combined Group to attract and retain clients and FUMAS depends to a large extent upon the brands and reputation of its businesses. Any decline in the Combined Group's brand and reputation and the separate brands which each has used historically could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to its client strategies and may impact the future profitability and financial position of the Combined Group.

e) Provision of investment advice

The Combined Group's financial advisers and authorised representatives will provide advice to clients. The Combined Group may be exposed to litigation if this advice is judged to be incorrect or if the authorised representative otherwise becomes liable for client losses.

f) Operational risks

Operational risk is the risk arising from the daily functioning of the IOOF Group's businesses. The Combined Group will have specific operational exposures relevant to the industry in which the Combined Group operates including exposures in connection with product disclosure statements, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, fraud, system failure, failure of security and physical protection systems and unit pricing errors.

g) Credit risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the Combined Group. Credit risk will arise for the Combined Group from cash and cash equivalents, receivables, loans and other receivables. Receivables consist of management fees receivable, service fees receivable and mandate receivables and other amounts receivable from related parties. These counterparties generally do not have an independent credit rating, and the Combined Group will need to assess the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

h) Price risk

Price risk is the risk that the fair value or future earnings of a financial instrument will fluctuate because of changes in market prices (other than from interest rate risk or currency risk, as described later). The financial instruments that will be managed by the Combined Group and impacted by price risk consist of investment units held in trusts, available for sale financial assets and the share buy-back liability.

The price risk associated with the units held in trusts is that the fair value of those units will fluctuate with movements in the redemption value of those units, which in turn is based on the fair value of the underlying assets held by the trusts. The Combined Group will need to manage by choosing to invest in a mix of trusts operated by the Combined Group that will provide an overall diversified portfolio that consists of cash, fixed income securities, equities, and listed property securities.

i) Cash flow and fair value interest rate risk

Interest rate risk is the risk to the Combined Group's earnings and capital arising from changes in market interest rates. The financial instruments held that will be impacted by interest rate risk consist of cash and cash equivalents, loans, and borrowings.

Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both that charged and received) are based on market rates, and will need to be closely monitored by management. They are primarily at variable rates of interest, and will expose the Combined Group to cash flow interest rate risk.

j) Liquidity risk

Liquidity risk relates to the Combined Group having insufficient liquid assets to cover current liabilities and unforeseen expenses.

The Combined Group will need to manage liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit.

The liquidity requirements for licensed entities in the IOOF Group will also need to be regularly reviewed and carefully monitored in accordance with those licence requirements.

k) Reliance on AFSL, RSE and other licences

In order to provide the majority of its services in Australia, the Combined Group will be required to hold a number of AFSL and RSE licences.

If the Combined Group fails to comply with the general obligations and conditions of an AFSL or RSE licence, this could result in the suspension or cancellation of the licence which enables it to operate key parts of its business. While it is not expected to occur, a breach or loss of licences would have a material adverse effect on the Combined Group's business and financial performance.

In addition, AFSL and RSE licences require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time, which may require the Combined Group to raise additional liquid capital from time to time. This may affect the earnings of the Combined Group if it is unable to raise fee levels to compensate for earnings dilution as a result of holding a higher capital base.

In order to provide the majority of its services in Australia the Combined Group will also be required to hold a number of other licences.

l) Insurance

The Combined Group will have insurance, including errors and omissions (professional indemnity) and directors' and officers' insurance, which it believes to be commensurate with industry standards, and adequate having regard to the business activities of the Combined Group.

IOOF's current insurance policies provide a degree of protection for IOOF's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that IOOF currently maintains will:

- > be available in the future on a commercially reasonable basis; or
- > provide adequate cover against claims made against or by IOOF or the Combined Group, noting that there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire).

The Combined Group also faces risks associated with the financial strength of its insurers to meet indemnity obligations when called upon which could have an adverse effect on the Combined Group's earnings. If the Combined Group incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

m) Unit pricing errors

Systems failures or errors in unit pricing of investments are issues affecting the broader funds management industry that may result in significant financial losses and brand damage to a number of financial services organisations, including the Combined Group.

A unit pricing error made by the Combined Group or its service providers could cause financial or reputation loss.

n) Dependence on key personnel and key investment managers

The Combined Group's performance is dependent on the talents and efforts of key senior executives and key investment managers. The Combined Group's continued ability to compete effectively depends on the capacity of the Combined Group to retain and motivate existing employees as well as attract new employees. The loss of key executives or advisors could cause material disruption to the Combined Group's activities and operations in the short to medium term. While equity incentives of key personnel align their interests with the Combined Group's future performance, they do not provide a guarantee of their continued employment with the Combined Group.

o) Dependence on financial planners

The success of the Combined Group's financial planning business will be largely driven by the quality of the relationships the business maintains with its employed planners. Its ability to retain productive planners is dependent on service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

p) Acquisitions

The Combined Group's future strategy may involve the acquisition of additional businesses within the Combined Group's core business lines. Acquisition transactions involve inherent risks, including:

- > accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
- > integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
- > diversion of management attention from existing business;
- > potential loss of key personnel and key clients;
- > unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
- > decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.

Any of these or other risks could cause the Combined Group not to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on its financial position.

q) Dilution

Future capital raisings or equity funded acquisitions by the Combined Group may dilute the holdings of particular shareholders in the Combined Group (relative to other shareholders).

The Combined Group may need to raise additional capital in the future in order to meet the operating or financing requirements of the Combined Group after the completion of the Transaction (including by way of additional borrowings or increases in the equity of any of the companies within the Combined Group), not all of which can be anticipated at this point in time. In the event that an increase in the equity of the Combined Group is required, particular shareholders in the Combined Group may be requested to subscribe for additional equity which may be substantial. To the extent that shareholders in the Combined Group do not subscribe to such additional equity, or are otherwise not invited to subscribe, their holdings in the Combined Group may be diluted (relative to other shareholders).

r) Regulatory and legislative risk and reform

Changes in laws, regulations and government policy may affect the Combined Group and the attractiveness of an investment in the Combined Group positively or negatively. The financial services sectors in which the Combined Group will operate are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions.

The regulatory regimes governing the business activities of the Combined Group are complex and subject to change. The impact of future regulatory and legislative change upon the business of the Combined Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance.

On 20 November 2013, the Australian Government announced a Financial System Inquiry to examine how the Australian financial system could be positioned to best meet Australia's enduring needs and support Australia's economic growth. The terms of reference announced on 20 December 2013 are broad ranging and include, but are not limited to, the following:

- > report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis;
- > refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system;
- > identify and consider the emerging opportunities and challenges that are likely to drive further change in the global and domestic financial system;

- > recommend policy options that promote a competitive and stable financial system and the efficient allocation of capital and cost efficient access and services for users, meet the needs of users with appropriate financial products and services and create an environment conducive to dynamic and innovative financial service providers;
- > take account of the regulation of the general operation of companies and trusts to the extent this impinges on the efficiency and effective allocation of capital within the financial system; and
- > examine the taxation of financial arrangements, products or institutions to the extent these impinge on the efficient and effective allocation of capital by the financial system, and provide observations that could inform the Australian Government's proposed tax white paper.

A final report is to be provided to the Australian Treasurer by November 2014. Policy, legislative or regulatory change resulting from the inquiry may adversely affect the Combined Group and could have an adverse impact on its profitability or financial condition, either directly or indirectly through changes applying to wealth managers or the Australian financial system more broadly.

The "Future of Financial Advice" (FOFA) legislation is an example of a key piece of legislation that impacts the Combined Group and remains subject to change. The FOFA legislation was introduced by the previous Government to essentially impose an overarching requirement on financial planners to act in the best interests of their clients and to prohibit them from obtaining sales commissions and other forms of conflicted remuneration.

On 29 January 2014, the current Government released for consultation a draft bill and draft regulations to implement its election commitment to streamline the FOFA legislation. Among the changes, the proposed regulations expand the existing grandfathering provisions to provide that certain benefits given under arrangements entered into before the application day of the ban on conflicted remuneration, and that relate to clients who had an interest in the relevant platform or product before 1 July 2014, are not subject to the ban.

Since taking over responsibility for FOFA, the current Finance Minister announced on 24 March 2014 that the Government had decided to put the implementation of the FOFA amendments on hold to consult further with industry. The Government's proposed laws have been referred to the Senate economics committee, which will issue its report on 16 June 2014. On release of the report, the Government will have two sitting weeks to table regulations to implement its changes before the previous Government's laws come into effect on 1 July 2014.

Notwithstanding the uncertain legislative landscape, ASIC may take enforcement action where it sees deliberate breaches of the FOFA requirements (e.g. the ban on the provision of conflicted remuneration) or a failure to make reasonable efforts to comply. However, such action is unlikely in respect of those FOFA provisions that the Government is planning to repeal. As we head towards the end of the financial year, ASIC's focus will continue to be on education and assistance and it will consult with industry on its FOFA regulatory guide once the amendments have been made.

The Combined Group has taken the necessary steps to ensure it complies with the FOFA requirements under the current law. Any subsequent amendments are likely to impact the Combined Group in a positive manner given the extensive industry consultation that has ensued.

7.3 Risks specific to SFGA

a) Financial market risk

A significant proportion of SFGA's revenue is derived from financial advice and wealth management revenue, of which the majority is linked to the underlying asset value of client portfolios.

Traditionally, the majority of these assets are invested in portfolios which include a mix of shares in Australian and international markets, cash and fixed interest products.

Adverse market conditions, such as those experienced during the global financial crisis will result in a decline in the value of the underlying client portfolios and consequently result in a decline in revenue earned by SFGA.

Poor consumer sentiment and uncertainty may also result in a decline in assets, which over time may again lead to declining revenues to the Group.

b) Operational risks and reliance on technology

SFGA is exposed to operational risks including risks arising from process error, fraud, information technology infrastructure and system failure, failure of security and physical protection systems, and unit pricing errors.

SFGA endeavours to mitigate operational risks through its compliance procedures, and where appropriate, obtains insurance to cover these risks. However, certain residual risks remain.

Where appropriate and cost effective, SFGA has outsourced the performance of certain business functions which assists in lowering its exposure to such risks.

c) Regulatory risk and changes in government policy and legislation

The financial advice, mortgage broking, insurance, wealth management, stockbroking and superannuation industries in Australia are going through a period of significant regulatory change, particularly in relation to FOFA reforms.

Further changes to legislation, regulation or government policy and their interpretation may affect SFGA through altering the demand for services, causing an increase in costs to deliver services or through requiring a restructure of the way in which SFGA operates its business.

SFGA has successfully implemented phase 1 of its FOFA reforms and will continue to monitor other developments as they arise.

d) Changes in market sentiment, behaviour or competitors

The financial services industries in Australia are becoming increasingly competitive. Competition may place downward pressure on the fees that SFGA charges its clients. Further, as client expectations change and evolve, the inability to meet client expectations could lead to a loss of clients.

Demand for financial advice and wealth management products and services is impacted by consumer sentiment and SFGA's past performance.

SFGA continues to focus on developing its quality, professional high net worth and SME focused financial advice and accounting businesses, whilst closely monitoring the competitive landscape.

SFGA has recently launched two innovative, transparent fee-based portfolio investment solutions to its clients and advisers (MPS and DPU) and continues to explore new product development and services which add value to SFGA's clients and advisers.

e) Reliance on financial advisers and accountants

SFGA's business is heavily reliant on human capital, in particular, the financial advisers and accountants who service SFGA's clients.

The ability to retain and motivate these financial advisers and accountants, as well as to attract qualified and experienced new personnel, is critical to SFGA's success.

SFGA mitigates this risk through its human resources framework which seeks to ensure it has a highly professional and energetic workforce, a system of meritocracy to reward excellent performance and an environment which encourages knowledge sharing, learning and development.

SFGA has a number of incentive plans applicable to different job roles, as well as benefit programs available to all employees and their families.

f) Litigation risk

SFGA is subject to the usual business risk that disputes or litigation may arise from time to time in the course of its business activities. Litigation risks relating to SFGA include, but are not limited to, contractual claims, professional negligence, employee claims and regulatory disputes.

SFGA mitigates this risk through its comprehensive compliance regime, including its documented Corporate Governance Framework, Risk Management Policy and Risk Monitoring and Reporting Framework. This is overseen by the SFGA Board with assistance of the Risk Management and Audit Committee.

SFGA has insurances, including professional indemnity insurance in place to manage these risks arising from its day to day operations, as it considers appropriate.

7.4 General Investment Risks

Certain risks are common to all companies. Both IOOF and SFGA are subject to these inherent risks and a summary of some of the more important general risks that may affect the Combined Group is set out below.

a) General share investment risk

There are various risks associated with investing in any form of business and with investing in listed entities generally. The value of IOOF Shares following Implementation of the Scheme will depend upon general stock market and economic conditions as well as the specific performance of the Combined Group. There is no guarantee of profitability, dividends, return of capital, or the price at which IOOF Shares will trade on the ASX. The past performance of IOOF Shares is not necessarily an indication as to future performance as the trading price of shares can go down or up in value.

b) General economic and political conditions

Factors, such as, but not limited to, domestic and international political changes, interest rates, exchange rates, inflation levels, commodity prices, industrial disruption, environmental impacts, international competition, taxation changes, changes in employment levels and labour costs may all have an adverse impact on the Combined Group's revenues, operating costs, profit margins and share price. These factors are beyond the control of the Combined Group and the Combined Group cannot, to any degree of certainty, predict how they will impact on the Combined Group.

c) General regulatory risk

Changes in laws, regulations and government policy may affect the Combined Group and the attractiveness of an investment in the Combined Group positively or negatively. The financial services sectors in which the Combined Group will operate are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions.

The regulatory regimes governing the business activities of the Combined Group are complex and subject to change. The impact of future regulatory and legislative change upon the business of the Combined Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance.

Taxation implications of the Scheme



8.1 Taxation Implications

This part of the Explanatory Memorandum provides an overview of the main Australian taxation implications that should arise for certain Scheme Shareholders as a result of the Implementation of the Scheme.

The information provided below is not applicable to all Scheme Shareholders. The information does not apply to Scheme Shareholders who:

- a) hold their SFGA Shares on revenue account (such as banks and share trading entities) or as trading stock;
- b) are temporary residents of Australia for Australian taxation purposes;
- c) hold their SFGA Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- d) hold their SFGA Shares under an employee share scheme offered by SFGA; or
- e) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* in relation to gains and losses on their SFGA Shares.

The taxation overview set out below takes into account legislation enacted or proposed as at the date of this Explanatory Memorandum, the interpretation of such laws by the courts and relevant administrative practices. It does not purport to be a complete analysis or to identify all potential related tax consequences.

The taxation overview does not constitute tax advice and should not be relied upon as such.

All Scheme Shareholders are advised to obtain independent taxation advice in respect of the Scheme which takes into account their personal circumstances.

8.2 Disposal of SFGA Shares

A CGT event should happen to Scheme Shareholders when their SFGA Shares are transferred to IOOF under the Scheme. The CGT event should happen on the Implementation Date.

Taxation implications for Australian resident Scheme Shareholders

Australian resident Scheme Shareholders should:

- a) make a capital gain if the capital proceeds from the disposal of their SFGA Shares exceed the cost base of their SFGA Shares (the availability of CGT roll-over relief for a capital gain is discussed below); or
- b) make a capital loss if the capital proceeds are less than their reduced cost base of the SFGA Shares.

A Scheme Shareholder's capital proceeds will depend on the form of the Scheme Consideration that the Scheme Shareholder is entitled to receive on the Implementation Date.

The Scheme Consideration may be comprised either:

- a) entirely of Share Consideration. In this case, the Scheme Shareholder's capital proceeds should be the market value of the New IOOF Shares received;
- b) entirely of Maximum Cash Consideration. In this case, the Scheme Shareholder's capital proceeds should be the amount of cash received; or
- c) partly Maximum Cash Consideration and partly New IOOF Shares. In this case, the Scheme Shareholder's capital proceeds should include:
 - i) the market value of the New IOOF Shares received; and
 - ii) the amount of cash received.

The market value of the New IOOF Shares for Australian taxation purposes should be their value on the date the shares are allotted.

The cost base of the SFGA Shares in SFGA will generally include the Scheme Shareholder's original or deemed cost of acquisition, plus incidental costs incurred in relation to the acquisition or disposal of the SFGA Shares.

For those Scheme Shareholders who received their SFGA Shares as the result of a prior replacement of shares which qualified for appropriate CGT roll-over relief, the cost base will be the original or deemed cost of acquisition of those previous shares, plus incidental costs incurred in relation to the acquisition or disposal of those previous shares. This assumes that the relevant CGT roll-over relief was available to defer any capital gain arising at the time the previous shares were replaced with the SFGA Shares, and that roll-over was chosen by the relevant Scheme Shareholder.

CGT discount

Scheme Shareholders who are individuals, complying superannuation entities, trusts or (in limited circumstances) life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their SFGA Shares if they have held their SFGA Shares for at least 12 months before the Implementation Date (the reduction is referred to as the "CGT discount"). The CGT discount is applied only after available capital losses have been applied to reduce the capital gain.

The discount rate is 50% for individuals and trusts, and 33⅓% for complying superannuation entities and life insurance companies.

The CGT discount is not available to Scheme Shareholders that are companies or to other Scheme Shareholders who acquired their SFGA Shares at or before 11:45am on 21 September 1999 where they choose to include indexation when calculating the cost base of their SFGA Shares.

Capital gains and capital losses made by a Scheme Shareholder in an income year from all sources are aggregated to determine whether they make a net capital gain or capital loss for that income year.

CGT roll-over relief

Australian resident Scheme Shareholders who:

- a) Elect Share Consideration; or
- b) Elect Maximum Cash Consideration but receive New IOOF Shares as a result of the Maximum Cash Consideration being scaled back,

should be eligible for full or partial CGT roll-over relief.

In broad terms, Eligible Scheme Shareholders who choose to obtain CGT roll-over relief disregard the CGT consequences of the transfer of their SFGA Shares to the extent that the capital gain made on the transfer relates to the acquisition of the New IOOF Shares.

Scheme Shareholders will generally need to choose CGT roll-over relief before lodging their income tax return for the income year in which the CGT event happens.

For Scheme Shareholders who are individuals, this is expected to be the tax return for the year ending 30 June 2015. Choosing to obtain CGT roll-over relief can simply be evidenced by excluding the relevant capital gain, in respect of which CGT roll-over relief is chosen, from the Scheme Shareholder's tax return.

CGT roll-over relief is not available to the extent that an SFGA Share is transferred for Maximum Cash Consideration, or where the CGT event results in a capital loss.

Disposal of New IOOF Shares

A Scheme Shareholder may wish to sell any New IOOF Shares acquired under the Scheme at a later time. To determine the extent of any capital gain or capital loss on the disposal of the New IOOF Shares it will be necessary to have regard to the cost base of the New IOOF Shares and the time of their acquisition.

For those Scheme Shareholders that are eligible for, and choose to obtain, CGT roll-over relief in respect of their SFGA Shares, the CGT roll-over relief rules will determine the cost base of any New IOOF Shares and their time of acquisition.

In general terms, where CGT roll-over relief is chosen, the cost base of the New IOOF Shares will be equal to the existing cost base of the SFGA Shares exchanged under the Scheme less any Maximum Cash Consideration received per SFGA Share. The existing cost base of the SFGA Shares which were exchanged for Maximum Cash Consideration is not allocated to form part of the cost base of the New IOOF Shares.

Whilst the acquisition date of each New IOOF Share will be its allotment date, each New IOOF Share will be deemed to have been acquired by the relevant Scheme Shareholder on the same date as the date the original SFGA Share, which gave rise to the entitlement to the New IOOF Share, was acquired (or deemed to have been acquired, if the SFGA Shares were acquired as the result of a prior replacement of shares which qualified for appropriate roll-over relief). This deemed acquisition date will only be relevant for indexation or the CGT discount concession (if available), and not for other purposes.

Where CGT roll-over relief is not chosen or is not available, the cost base of the New IOOF Shares should be equal to the market value of the SFGA Shares exchanged under the Scheme less any Maximum Cash Consideration received per SFGA Share. In this case, the New IOOF Shares should be taken to have been acquired on the date the shares are allotted.

Taxation implications for non-resident Scheme Shareholders

Scheme Shareholders who are not residents of Australia for tax purposes should not be subject to Australian CGT in respect of the transfer of their SFGA Shares to IOOF under the Scheme. This assumes that the SFGA Shares are not "indirect Australian real property interests", that is, that each of the non-resident Scheme Shareholders (together with their associates) hold less than 10% of the total number of SFGA Shares on issue and the underlying value of SFGA is not principally (more than 50%) derived from Australian real property.

Non-resident Scheme Shareholders who receive any Share Consideration should not generally be eligible for CGT rollover relief.

The cost base of the New IOOF Shares for non-resident Scheme Shareholders should be equal to the market value of the SFGA Shares exchanged under the Scheme less any Maximum Cash Consideration received per SFGA Share. The New IOOF Shares should be taken to have been acquired on the date the shares are allotted.

8.3 IOOF FY14 Dividend

Scheme Shareholders who receive New IOOF Shares will be entitled to receive the final IOOF dividend for the year ending 30 June 2014 (the **IOOF FY14 Dividend**), provided the Implementation of the Scheme occurs prior to the record date for the IOOF FY14 Dividend (expected to be on or around 24 September 2014), as is currently anticipated (provided they still hold the New IOOF Shares as at the record date for the IOOF FY14 Dividend).

Taxation implications for Australian resident Scheme Shareholders

If the IOOF FY14 Dividend is received by an Australian resident Scheme Shareholder, that dividend will be assessable to the Australian resident Scheme Shareholder.

Generally, the franking credits attached to an IOOF FY14 Dividend which is received directly by an Australian resident Scheme Shareholder will also be included in the assessable income of that Scheme Shareholder (i.e. the amount of a fully franked dividend is grossed up by the amount of the franking credits attached to the dividend and this grossed up amount is included in the assessable income of the Scheme Shareholder).

A tax offset equal to the franking credits should then be available to offset or reduce the resulting tax liability. Individuals and complying superannuation entities may be entitled to a refund where the tax offset for any franked distribution exceeds their tax liability. Where the Scheme Shareholder is a corporate shareholder, franked dividends will generally give rise to a franking credit in the company's franking account.

To be eligible for the franking credit and tax offset, a Scheme Shareholder must generally satisfy the 'holding period rules'. In this case, this means the New IOOF Shares in respect of the IOOF FY14 Dividend must be held 'at risk' for a continuous period of at least 45 days within the relevant 'qualification period'.

A Scheme Shareholder will not be taken to have held the New IOOF Shares 'at risk' where the Scheme Shareholder holds 'positions' (such as options or other hedging arrangements) which materially diminish the risks of loss or opportunities for gain in respect of those Shares.

As a practical matter, a Scheme Shareholder who holds their New IOOF Shares at risk for a continuous period of at least 45 days during the period from the day after the allotment date and 45 days after the day the New IOOF Shares become ex-dividend (inclusive) should satisfy the 'holding period rules' and be eligible for the franking credit and tax offset. Where the holding period rule is not met, the small shareholder exemption may be available to individual shareholders where franking credits from all sources do not exceed \$5,000. All Scheme Shareholders are advised to consult their own independent tax adviser regarding their entitlement to a franking tax offset in respect of the IOOF FY14 Dividend.

Taxation implications for non-resident Scheme Shareholders

To the extent that the IOOF FY14 Dividend is franked, a non-resident Scheme Shareholder should not be subject to Australian dividend withholding tax, and the non-resident Scheme Shareholder should not otherwise be subject to Australian tax.

GST and stamp duty

IOOF will pay the stamp duty (if any) payable in Australia on the transfer of SFGA Shares under the Scheme. No GST will be payable in Australia on such transfers, except that GST may be payable on any fees or charges that a broker, bank, custodian or other service provider may charge in connection with the Scheme.

Additional information



This section sets out the additional information required by section 412(I) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations, as well as some additional information that may be of interest to SFGA Shareholders.

9.1 Substantial Shareholders

IOOF announced on Friday, 16 May 2014 that it had entered into the Call Option Deeds with the Call Option Shareholders including Kevin Christopher Bailey, Grace Genevieve Bailey and their Associates (together, **The Bailey Holdings**) which gave IOOF a right to acquire approximately 16% of the SFGA Shares on issue if it chose to proceed with a scheme of arrangement or takeover offer in respect of the SFGA Shares.

These Call Option Deeds give rise to the voting power that IOOF has in 115,057,142 SFGA Shares, as set out in the table below. As IOOF has not exercised the rights it has to acquire the SFGA Shares under these agreements, the 115,057,142 SFGA Shares in respect of which IOOF has voting power includes 49,762,469 SFGA Shares in respect of which The Bailey Holdings have voting power. Accordingly, both IOOF and The Bailey Holdings are shown in the table below as holding 5% or more of SFGA Shares.

As at the date of this Explanatory Memorandum, the following persons had notified SFGA that they had voting power in 5% or more of SFGA Shares:

Name	Number of SFGA Shares in which they have voting power	Percentage of SFGA Shares on issue
IOOF	115,057,142	15.66
The Bailey Holdings	49,762,469	6.77

Further details on the Call Option Deeds are set out in section 9.6 of this Explanatory Memorandum.

9.2 Marketable securities of SFGA held by or on behalf of SFGA Directors

a) Interests of SFGA Directors in marketable securities of SFGA

No marketable securities of SFGA are held or controlled by SFGA Directors and no such persons are otherwise entitled to such securities as at the date of this Explanatory Memorandum for registration by ASIC, other than as listed below, all of which are held beneficially:

SFGA Director	Number of SFGA Shares
Mr Peter Promnitz	100,000
Mr Anthony Fenning	26,514,909
Mr Eric Dodd	100,000
Mr John Gannon	33,899,099
Mr James Kilkenny	9,010,697
Mr Graham Maloney	100,000
Ms Naseema Sparks	—

In addition to the 26,514,909 SFGA Shares held or controlled by Mr Fenning (detailed above), Mr Fenning also holds 3,000,000 Performance Rights pursuant to the SFGA Employee Incentive Plan. As detailed in section 3.3 of this Explanatory Memorandum, Mr Fenning will receive 3,000,000 SFGA Shares in respect of those Performance Rights, which will occur after the Scheme becomes Effective.

The SFGA Directors intend to vote all of the SFGA Shares held or controlled by them in favour of the Scheme, in the absence of a Superior Proposal.

Except as stated in this section 9 of the Explanatory Memorandum:

- there are no marketable securities of SFGA held by or on behalf of SFGA Directors as at the date of this Explanatory Memorandum;
- none of the SFGA Directors hold, or have any interest in, marketable securities of IOOF; and
- there has been no dealing by any of the SFGA Directors in any marketable securities of SFGA or IOOF in the four months preceding the date of this Explanatory Memorandum.

b) Payments or other benefits to SFGA Directors or secretaries or executive officers of SFGA

Except as set out below or otherwise disclosed in this Explanatory Memorandum:

- i) there is no payment or other benefit that is proposed to be made or given to any SFGA Director or secretary or executive officer of SFGA (or any of its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in SFGA or any of its Related Bodies Corporate;
- ii) the SFGA Directors do not have any other interests in a contract entered into by IOOF;
- iii) there are no contracts or arrangements between any SFGA Director and any person in connection with or conditional upon the outcome of the Scheme, other than as described in section 6.2(d) of this Explanatory Memorandum; and
- iv) the SFGA Directors do not have a material interest in relation to the Scheme.

As announced to the ASX on 30 May 2014, Linda Fox has resigned and will cease employment with the Group on 11 July 2014. The SFGA Board has exercised its discretion under the rules of the SFGA Employee Incentive Plan to vest a proportion of Mrs Fox's Performance Rights prior to her ceasing employment. The SFGA Board has determined (having regard to the provisions of Division 2 of Part 2D.2 of the Corporations Act relating to the payment of retirement benefits to managerial or executive employees) to vest 343,040 Performance Rights held by Mrs Fox. The balance of Mrs Fox's Performance Rights will lapse. The Group and Mrs Fox have entered into an agreement pursuant to which they have agreed to the arrangements described above.

9.3 Intention of SFGA Directors concerning the business of SFGA

If the Scheme is Implemented, the existing SFGA Board will be reconstituted on the Implementation Date in accordance with the terms of the Scheme Implementation Agreement.

Accordingly, the existing SFGA Directors are not able to make any statements of intention regarding:

- > the continuation of SFGA's business or how the business will be conducted after the Implementation of the Scheme;
- > any major changes to the business, including any redeployment of the fixed assets; or
- > the future employment of present employees,

in each case, after the Scheme is Implemented.

If the Scheme is approved by SFGA Shareholders and the Court and is Implemented, IOOF will have 100% ownership and control of SFGA Shares, and the intentions of IOOF are set out in section 6.2 of this Explanatory Memorandum.

If the Scheme is not Implemented, the SFGA Directors intend to focus on SFGA's current business plan, and payment of any dividends will be considered in accordance with SFGA's usual dividend policy.

9.4 Marketable securities of IOOF held by or on behalf of IOOF Directors**a) IOOF Directors' interests in IOOF marketable securities**

The following table shows the Relevant Interests of each IOOF Director in marketable securities in IOOF on 25 June 2014, the last practicable day before the date of this Explanatory Memorandum.

IOOF Director	Number of IOOF Shares
Dr Roger Sexton AM	83,350
Mr Christopher Kelaher	4,780,426
Mr Ian Griffiths	3,022,519
Ms Jane Harvey	14,878
Mr George Venardos	20,013

Except as stated in this section 9 of the Explanatory Memorandum:

- > there are no marketable securities of IOOF held by or on behalf of IOOF Directors as at the date of this Explanatory Memorandum;
- > none of the IOOF Directors hold, or have any interest in, marketable securities of SFGA; and
- > there has been no dealing by any IOOF Director in any marketable securities of SFGA or IOOF in the four months preceding the date of this Explanatory Memorandum.

b) Payments or other benefits to certain persons by IOOF

Except as stated in this section 9.3 of the Explanatory Memorandum, there is no payment or other benefit that is proposed to be made or given:

- > to any SFGA Director or proposed director of IOOF to induce them to become, or to qualify as, a director of the Combined Group, other than as described in section 6.2(d) of this Explanatory Memorandum; and
- > for services provided by any director or person named in section 9.12 in connection with the formation or promotion of the Combined Group or the offer of shares in the Combined Group under the Scheme.

9.5 Interests of IOOF and IOOF's Associates in SFGA

On Friday, 16 May 2014, IOOF entered into certain call option deeds (**Call Option Deeds**). As a result of its entry into these Call Option Deeds, IOOF and its Associates increased their voting power from 0% to 15.66% of the issued share capital in SFGA. Further details on the Call Option Deeds are set out in section 9.6 of the Explanatory Memorandum.

Other than the interests arising under the Call Option Deeds, neither IOOF nor its Associates (other than SFGA) have:

- > a Relevant Interest in any SFGA Shares or any other marketable securities of SFGA;
- > provided, or agreed to provide, consideration for any SFGA Shares in the four months preceding the date of this Explanatory Memorandum; or
- > given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person, or an Associate, to vote in favour of the Scheme or dispose of SFGA Shares which benefit is not offered to all SFGA Shareholders under the Scheme in the four months preceding the date of this Explanatory Memorandum.

9.6 Call Option Deeds

On Friday, 16 May 2014, IOOF entered into the Call Option Deeds with the Call Option Shareholders.

Under the terms of the Call Option Deeds, the relevant SFGA Shareholders agree to grant IOOF call options (**Call Options**) to purchase the SFGA Shares they hold if:

- > there is a Competing Proposal; and
- > a Superior Proposal proposed by IOOF has been publicly announced by the SFGA Board.

In such circumstances, IOOF may acquire the relevant SFGA Shares at a price per SFGA Share equivalent to the price IOOF offers under the Superior Proposal (**Exercise Price**).

Under the terms of the Call Option Deeds, if IOOF exercises the Call Options and there is subsequently an offer made for SFGA Shares, either under the Scheme, a Third Party Scheme of Arrangement or a Third Party Takeover Bid, which is greater per SFGA Share than the Exercise Price, IOOF must pay the relevant SFGA Shareholders an amount equal to this difference in respect of each SFGA Share it acquired under the Call Option Deeds. If IOOF makes a Takeover Bid for SFGA Shares at an offer price per SFGA Share greater than the Exercise Price, the relevant SFGA Shareholders have a right to purchase back any SFGA Shares sold to IOOF under the Call Option Deeds and to accept into this Takeover Bid.

If IOOF exercises all the Call Options, the SFGA Shares it will acquire from the relevant SFGA Shareholders will, in aggregate, comprise 15.66% of SFGA's issued share capital. As at 25 June 2014, the last practical day before the date of the Explanatory Memorandum, none of the circumstances that would give to a right for IOOF to exercise the Call Options have arisen. The terms of the Call Option Deeds were disclosed in full to the ASX in a notice dated 20 May 2014.

9.7 Creditors of SFGA

The Scheme will not affect the interests of creditors of SFGA. No new liability will be incurred by SFGA other than the costs incurred in the Implementation of the Scheme.

SFGA has paid and is paying all its creditors within normal terms of trade. It is solvent and is trading in an ordinary commercial manner.

9.8 No unacceptable circumstances

SFGA Directors believe that the Scheme does not involve any circumstances in relation to the affairs of any member of SFGA that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

9.9 ASIC relief and ASX waivers

a) ASIC relief

Regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC allows otherwise, the Explanatory Memorandum must contain all of the matters set out in Part 3 of Schedule 8 to the Corporations Regulations. As some of these requirements are not applicable or appropriate in respect of the Scheme, ASIC has allowed the following variation in this Explanatory Memorandum.

Clause 8302(h) of Schedule 8 of the Corporations Regulations requires the Scheme Booklet to disclose the extent to which the financial position of SFGA has materially changed since the date of the last balance sheet laid before SFGA's general meeting, being its financial statements for FY2013.

ASIC has allowed SFGA to confine its disclosure to all material changes to SFGA's financial position between 31 December 2013, being the end of SFGA's half year (the results in respect of which were announced to the ASX on 20 February 2014), and the lodgement of this Explanatory Memorandum for registration by ASIC, on condition that:

- i) SFGA has complied with Division 2 of Part 2M.3 of the Act in respect of the half-year ended 31 December 2013;
- ii) the Explanatory Memorandum states that SFGA will give a copy of the documents referred to in section 302 of the Corporations Act for the half-year ended 31 December 2013 free of charge to anyone who requests them before the Scheme to which the Explanatory Memorandum relates is approved by the Court;
- iii) SFGA discloses all material changes to its financial position occurring after 31 December 2013 but prior to the date of the Explanatory Memorandum, in the Explanatory Memorandum;
- iv) SFGA discloses all material changes to its financial position that occur after the date of the Explanatory Memorandum, but prior to the Scheme being approved by the Court, in announcements to ASX; and
- v) the Explanatory Memorandum sent to members is substantially in the form provided to ASIC on 25 June 2014.

A copy of SFGA's half year report for the period ended 31 December 2013 is available on SFGA's website at www.sfgaustralia.com.au.

b) ASX waivers

As at the date of this Explanatory Memorandum, it is not anticipated that any other ASX consents or approvals are necessary to implement the Scheme.

9.10 Change of control consents

In accordance with the terms of the Scheme Implementation Agreement, SFGA has sought consent to a “Review Event” occurring in respect of the financing arrangements described below.

SFGA’s term debt facilities contain a review event which was triggered upon execution of the Scheme Implementation Agreement. IOOF’s acquisition of the Scheme Shares in accordance with the Scheme could result in SFGA’s financier cancelling its commitments.

The \$80,000,000 Senior Syndicated Facilities agreement dated 30 November 2011 between, among others, SFGA, National Australia Bank Limited (as the **Agent**) and Tasovac Pty Limited as Security Trustee, as amended and restated by the Amendment Deed dated 19 May 2013 (**Facility Agreement**) provides for a number of facilities to be drawn down by members of the Group, by which a total commitment of \$80,000,000 is made available to the Group. As at 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, \$26,994,844 had been drawn down by the Group under the Facility Agreement.

Under the Facility Agreement, it is a “Review Event” where a “Change of Control” occurs or any “Group Member” enters into a binding arrangement pursuant to which any step towards a “Change in Control” is taken. A Change of Control occurs where any person or group of persons acting together acquire greater than 19.9% of the SFGA’s issued share capital, or come to control the SFGA Board.

Upon the occurrence of a “Review Event” under the Facility Agreement, SFGA will upon request by the Agent, meet and consult and negotiate in good faith with the Agent for a period of not more than 30 days as to the Review Event and, if requested by the Agent, agree to rectify or restructure the circumstances giving rise to the Review Event.

If, after the 30 day period no such meeting has taken place, or if agreement cannot be reached by the expiry of that period the Agent may by notice to SFGA cancel any one or more of the facilities and require SFGA to repay all “Utilisations” in full by the date falling 90 days from the date of that notice or such earlier date on which an “Event of Default” occurs.

In addition to the “Review Event” resulting from the “Change of Control” of SFGA, there are other “Review Events” and “Events of Default” under the Facility Agreement which may be triggered as a result of the Scheme:

- i) under the Facility Agreement, it is also a “Review Event” where shares in SFGA cease to be listed or that listing is suspended for three or more Business Days. Accordingly, should the Scheme proceed and SFGA is removed from the official list of the ASX, a separate “Review Event” will occur under the Facility Agreement; and

- ii) if the Scheme proceeds, the representations and warranties relating to the accuracy of the group structure chart which has been annexed to the Facility Agreement will be incorrect when repeated on any subsequent utilisation date of the facilities. Unless remedied, this misrepresentation will be incorrect if SFGA is delisted, and such misrepresentation will be an Event of Default under the Facility Agreement.

As at 25 June 2014, the last practicable day before the date of this Explanatory Memorandum, only the “Review Event” referred to in paragraph (a) above has occurred and no other “Review Event” or “Event of Default” has occurred under the Facility Agreement. Further, no member of the Group has received any written notice from the Agent that it intends to cancel commitments or that the Agent believes that a “Review Event” or “Event of Default” has occurred.

9.11 Consents and disclaimers**a) Consent to be named**

The following parties have given and have not, before the time of registration of this Explanatory Memorandum by ASIC, withdrawn their written consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- > Merrill Lynch Markets (Australia) Pty Limited as financial advisor to SFGA;
- > Clayton Utz as legal advisor to SFGA;
- > Computershare Investor Services Pty Limited as the SFGA Share Registry; and
- > Boardroom Pty Ltd as the IOOF Share Registry.

b) Consent to be named and to the inclusion of information

EY has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to be named as the Independent Expert in this Explanatory Memorandum and to the inclusion of the Independent Expert’s Report set out in Annexure A of this Explanatory Memorandum, and other statements in this Explanatory Memorandum said to be based on statements made by EY, in each case in the form and context in which they appear in this Explanatory Memorandum.

KPMG Transaction Services has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to be named as the Investigating Accountant in this Explanatory Memorandum and to the inclusion of the Investigating Accountant’s Report set out in Annexure B of this Explanatory Memorandum, and other statements in this Explanatory Memorandum said to be based on statements made by KPMG Transaction Services, in each case in the form and context in which they appear in this Explanatory Memorandum.

PwC has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to be named as SFGA’s auditor in this Explanatory Memorandum and to the inclusion of statements in this Explanatory Memorandum in relation to its role in respect of SFGA’s 2013 financial reports and other statements in this Explanatory Memorandum said to be based on statements made by PwC, in each case in the form and context in which they appear in this Explanatory Memorandum.

Clayton Utz has also given and has not, before the time of registration of this Explanatory Memorandum by ASIC, withdrawn its written consent to the inclusion of section 8 in this Explanatory Memorandum in the form and context in which it is included and to all references in this Explanatory Memorandum to that section in the form and context in which they appear.

IOOF has given and has not, before the date of this Explanatory Memorandum, withdrawn its written consent to the inclusion of IOOF Information and other statements in this Explanatory Memorandum said to be based on IOOF Information or statements made by IOOF, in each case in the form and context in which they appear in this Explanatory Memorandum.

9.12 Fees

- > Merrill Lynch Markets (Australia) Pty Limited has acted as financial advisor in connection with the Scheme. SFGA has paid, or agreed to pay, approximately \$4,000,000 (excluding GST) for these services;
- > Clayton Utz has acted as legal advisor to the Company in connection with the Scheme. SFGA has paid, or agreed to pay, approximately \$1,100,000 (excluding disbursements and GST) for these services up until Implementation. Further amounts may be paid to Clayton Utz in accordance with its normal time-based charges;
- > EY has acted as the independent expert and has provided the Independent Expert's Report in connection with the Scheme. SFGA has paid, or agreed to pay, \$155,000 (excluding GST) for these services;
- > KPMG Transaction Services has acted as the investigating accountant and has provided the Investigating Accountant's Report and certain other advisory services in connection with the Scheme. IOOF has paid, or agreed to pay, approximately \$115,000 (excluding GST) in respect of the Investigating Accountant's Report and approximately \$35,000 (excluding GST) in respect of the other advisory services;
- > PwC has acted as auditor to SFGA and has provided various services in connection with the Scheme. SFGA has paid, or agreed to pay, approximately \$73,000 (excluding GST) for these services;
- > Computershare Investor Services Pty Limited has acted as the SFGA Share Registry and has provided various services in connection with the Scheme. SFGA has paid, or agreed to pay, approximately \$92,000 (excluding GST) for these services; and
- > Boardroom Pty Limited has acted as the IOOF Share Registry and has provided various services in connection with the Scheme. IOOF has paid, or agreed to pay, approximately \$11,000 (excluding GST) for these services.

9.13 Disclosure of interests of certain persons

Except as disclosed elsewhere in this Explanatory Memorandum, no director or person named in section 9.12 holds as at the date of this Explanatory Memorandum or held at any time during the preceding two years, any interest in:

- a) the formation or promotion of IOOF;
- b) the property acquired or proposed to be acquired by IOOF in connection with its formation or promotion or the offer of the New IOOF Shares under the Scheme; or
- c) the offer of New IOOF Shares under the Scheme.

9.14 Disclaimers

Each person referred to in section 9.11(b):

- a) does not make, or purport to make, any statement in this Explanatory Memorandum other than those statements made in the capacity and to the extent the person has provided its consent, as referred to above; and
- b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum other than as described in this section with that person's consent.

9.15 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Explanatory Memorandum, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any SFGA Director, or any director of any Related Body Corporate of SFGA, which has not previously been disclosed to SFGA Shareholders.

9.16 Supplementary information

SFGA will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of lodgement of this Explanatory Memorandum for registration by ASIC and the Effective Date:

- a) a material statement in this Explanatory Memorandum is false or misleading;
- b) a material omission from this Explanatory Memorandum;
- c) a significant change affecting a matter included in this Explanatory Memorandum; or
- d) a significant new matter has arisen and that would have been required to be included in this Explanatory Memorandum if it had arisen before the date of lodgement of this Explanatory Memorandum for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, SFGA may circulate and publish any supplementary document by:

- e) approaching the Court for a direction as to what is appropriate in the circumstances;
- f) placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- g) posting the supplementary document on the SFGA website www.sfgaustralia.com.au; or
- h) making an announcement to the ASX.

9.17 Date of Explanatory Memorandum

This Explanatory Memorandum is dated 27 June 2014.

Glossary



In this Explanatory Memorandum:

\$ or **AUD** means Australian Dollars.

AASB means the Australian Accounting Standards Board.

Adjusted Number means the number determined in accordance with the following formula:

$$\text{Adjusted Number} = 0.104 \times \left(1 + \frac{D}{\text{IOOF VWAP}} \right)$$

Where:

D is the cash amount per IOOF Share (expressed in dollars and excluding, for the avoidance of doubt, any franking credit) of any dividend declared or paid by IOOF the record date for which occurs after the date of the Scheme Implementation Agreement and before the Implementation Date.

AFSL means Australian financial services licence.

AICD means the Australian Institute of Company Directors.

AIFRS means the Australian equivalent of the International Financial Reporting Standards.

Announcement Date means Friday, 16 May 2014.

APRA means the Australian Prudential Regulation Authority.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it known as the Australian Securities Exchange.

ASX Listing Rules means the listing rules of the ASX from time to time as modified by any express written waiver or exemption given by the ASX.

AUSTRAC means the Australian Transaction Reports and Analysis Centre.

Break Fee means \$6 million.

Business Day means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Melbourne and Sydney.

Call Option Deeds means call option deeds entered into by IOOF and each of the Call Option Shareholders on 16 May 2014.

Call Option Shareholders means each of the following four SFGA Shareholder groups that have entered into Call Option Deeds:

- a) Anthony Kevin Fenning;
- b) Grace Genevieve Bailey, Kevin Christopher Bailey, Kevin Bailey Corporation Pty Ltd as trustee for the Bailey Superannuation Account, Kevin Christopher Bailey and Grace Genevieve Bailey as trustees for the Bailey Family Trust, and Kevin Bailey, Wayne Dowd and Grace Bailey as trustees for the Kevin Bailey Charitable Trust;

- c) Sam Gannon Pty Ltd as trustee for The J B Gannon Family Trust; and
- d) James Patrick Kilkenny, James Patrick Kilkenny and Alison Margaret Kilkenny as trustees for The Kilkenny Family Trust, and James Patrick Kilkenny and Alison Margaret Kilkenny as trustees for the Kilkenny Rose Superfund.

CBA means the Commonwealth Bank of Australia.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of SFGA Shares and other financial products operated by ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.

Combined Group means IOOF following the successful Implementation of the Scheme.

Competing Proposal means any proposal, agreement, arrangement or transaction, which, if entered into or completed, would mean a Third Party (either alone or together with any Associate) would:

- a) directly or indirectly acquire a Relevant Interest in, or have the right to acquire, a legal, beneficial or economic interest in, or control of, more than 20% of SFGA Shares;
- b) acquire Control of SFGA;
- c) otherwise acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an exclusive economic interest in all or a material part of SFGA's business or assets or the business or assets of the Group;
- d) otherwise acquire (whether directly or indirectly) SFGA; or
- e) enter into any agreement, arrangement or understanding requiring SFGA to abandon, or otherwise fail to proceed with, the Transaction,

whether by way of Takeover Bid, Scheme of Arrangement, security holder approved acquisition, capital reduction or buy back, sale or purchase of shares, securities or assets, global assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), or other transaction or arrangement.

Conditions Precedent means the Conditions Precedent to the Scheme set out in clause 3.1 of the Scheme Implementation Agreement.

Control has the meaning given in section 50AA of the Corporations Act.

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

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia, New South Wales registry or such other court of competent jurisdiction as SFGA and IOOF agree in writing.

Deed Poll means the deed poll executed by IOOF in favour of SFGA Shareholders in the form set out in Annexure E of this Explanatory Memorandum.

Director means an SFGA Director.

DPU means Dynamic Portfolio Update Service.

Effective means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

Election means an election or deemed election by a Scheme Shareholder in accordance with clause 5.2 of the Scheme Implementation Agreement, and **Elect** has the corresponding meaning.

Election Date means 5.00pm on Thursday, 14 August 2014.

Election Form means the form used by a Scheme Shareholder or holder to make an Election.

Eligible Scheme Shareholder means a Scheme Shareholder other than an Ineligible Overseas Scheme Shareholder.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date means the latest to occur of:

- a) 31 December 2014; and
- b) such other date agreed in writing between SFGA and IOOF.

EY means Ernst & Young Transaction Advisory Services Limited ABN 87 003 599 844 AFSL No. 240585.

Exclusivity Period means the period commencing on the date of the Scheme Implementation Agreement and ending on the earliest of:

- a) the End Date;
- b) the date the Scheme Implementation Agreement is terminated in accordance with its terms; and
- c) the Implementation Date.

Exercise Price has the meaning given in section 9.6 of this Explanatory Memorandum.

Explanatory Memorandum means this explanatory statement, including the Annexures.

FINSIA means the Financial Services Institute of Australasia.

First Court Date means the first day of the hearing of an application made to the Court for an order pursuant to section 411(1) of the Corporations Act convening the Scheme Meeting or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

FOFA means Future of Financial Advice.

FUMAS means funds under management, administration, advice and supervision.

FY means Financial Year ending 30 June.

Government means the Government of the Commonwealth of Australia.

Group means SFGA and its Related Bodies Corporate.

GST means goods and services tax.

IFRS means the International Financial Reporting Standards.

Immediately Available Funds means a bank cheque, electronic funds transfer for same day value of other form of cleared funds acceptable to SFGA.

Implementation means the transfer of the Scheme Shares to IOOF pursuant to the Scheme. A reference to Implement or Implemented has a corresponding meaning.

Implementation Date means Wednesday, 20 August 2014 or such other date as SFGA and IOOF agree in writing.

Independent Expert means EY.

Independent Expert's Report means the report from the Independent Expert in respect of the Transaction, a copy of which is set out in Annexure A of this Explanatory Memorandum.

Ineligible Overseas Shareholder means a Scheme Shareholder whose address shown in the SFGA Share Register on the Record Date is a place outside Australia and its external territories, unless IOOF determines that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New IOOF Shares when the Scheme becomes Effective.

Investigating Accountant means KPMG Transaction Services.

Investigating Accountant's Report means the report from the Investigating Accountant in relation to the financial information regarding the merged group, a copy of which is set out in Annexure B of this Explanatory Memorandum.

IOOF means IOOF Holdings Limited ACN 100 103 722 of Level 6, 161 Collins Street, Melbourne VIC 3000.

IOOF 2013 Annual Report means the IOOF annual report for the financial year ended 30 June 2013.

IOOF Board means the board of directors of IOOF.

IOOF Constitution means the constitution of IOOF.

IOOF Director means a director of IOOF.

IOOF Due Diligence Material means the written information disclosed by or on behalf of IOOF and its Subsidiaries, including:

- a) in management presentations and interviews and management discussions with directors and employees of SFGA;
- b) in written responses to requests for information; and
- c) in written correspondence between IOOF's advisers and SFGA's advisers,

to SFGA and its advisers prior to the date of the Scheme Implementation Agreement.

IOOF FY14 Dividend means the final dividend, fully franked or otherwise, for each IOOF Share to be declared by IOOF in respect of the financial year ended 30 June 2014.

IOOF Group means IOOF and each of its Subsidiaries.

IOOF Information means the information regarding IOOF and the Combined Group which is required under the Corporations Act, the Corporations Regulations or under RG 60 to enable the Explanatory Memorandum to be prepared and completed as set out in the letter from the Chairman of IOOF, in section 1 the question “Who is IOOF” and the answer to that question, sections 2.1(g), 2.1(h), 2.2(d), 3.6, 5, 6, 7 (other than 7.3), 9.4, 9.5, 9.6 of this Explanatory Memorandum, and statements relating to the entitlement to receive the IOOF FY14 Dividend.

IOOF Material Adverse Change means Specified Events which, individually or when aggregated with all such events, have or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the IOOF Group, and which would include:

- a) the value of total consolidated Net Assets of the IOOF Group being reduced, or which could reasonably be expected to be reduced, by \$123,300,000 or more; or
- b) the Underlying NPAT of the IOOF Group being reduced or which could reasonably be expected to be reduced, by \$17,400,000 or more per annum on a recurring basis,

other than an event, occurrence or matter:

- c) contemplated or required to be done or procured by IOOF pursuant to the Transaction Documents;
- d) to the extent that it was fairly disclosed in the IOOF Due Diligence Materials;
- e) to the extent that it was fairly disclosed in documents that were publicly available prior to the date of the Scheme Implementation Agreement from public filings of IOOF with the ASX;
- f) comprising a change to legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Regulatory Authority (whether or not retrospective in effect), including in relation to tax; or
- g) relating to any material adverse change or disruption to the existing financial markets or economic conditions of Australia, the United Kingdom, the United States of America, Hong Kong or China.

IOOF Prescribed Occurrence has the meaning given in the Scheme Implementation Agreement.

IOOF Proposal means IOOF acquiring 100% of SFGA Shares, Implemented by way of a Scheme of Arrangement.

IOOF Secretary means a company secretary of IOOF.

IOOF Share means fully paid ordinary shares in the capital of IOOF.

IOOF Shareholder means a holder of IOOF Shares from time to time.

IOOF Share Registry means Boardroom Pty Limited (ACN 003 209 836).

IOOF VWAP means:

- a) subject to paragraph (b) below, the average (calculated to 2 decimal places) of the volume weighted average share prices for IOOF Shares traded on the ASX (excluding any and all special crossings, crossings made prior to the commencement of normal trading, crossings made during the closing phase or the after hours adjust phase, equity combinations, overseas trades and overnight crossings or trades pursuant to the exercise of options over IOOF Shares, and any other trades which SFGA and IOOF reasonably agree to exclude on the basis that they are not representative of the general price at which IOOF Shares are trading on the ASX in the context of trading in IOOF Shares on any day on which the trades took place) on each of the Trading Days comprising the IOOF VWAP Period; and
- b) if after the date of the Implementation Agreement but before the Implementation Date a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, then, for the purpose of calculating the IOOF VWAP, in calculating the volume weighted average share price for IOOF Shares on any Trading Day during the IOOF VWAP Period on which IOOF Shares did not trade ex the entitlement to receive that dividend, the volume weighted average share price for IOOF Shares on that Trading Day will be reduced by the cash amount of that dividend (and, for this purpose, if the ex date for that dividend is after the end of the IOOF VWAP Period, the IOOF Shares will be taken to not have traded ex dividend during the IOOF VWAP Period).

IOOF VWAP Period means the ten Trading Days immediately preceding the date of the Scheme Meeting (but not including that date).

IOOF Warranties means the warranties made by IOOF set out in clause 11.1 of the Scheme Implementation Agreement.

KPMG Transaction Services means KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) ABN 43 007 363 215.

Maximum Cash Consideration means the alternative Scheme Consideration, which may be entirely cash or a combination of cash and New IOOF Shares depending on the Elections made by other Scheme Shareholders.

MPS means Managed Portfolio Service.

Net Assets means the net assets for the IOOF Group or the Group (as applicable) calculated in accordance with the accounting policies and practices applied by the IOOF Group or the Group (as applicable) in preparing the financial statements as at 31 December 2013, as stated and disclosed in those financial statements filed with the ASX.

New IOOF Share means a fully paid ordinary share in IOOF to be issued to Scheme Shareholders under the Scheme.

Notice of Scheme Meeting means the notice of meeting relating to the Scheme Meeting, which is contained in Annexure F to this Explanatory Memorandum.

NPAT means net profit after tax.

Performance Right means a right granted under SFGA's long term incentive plan to acquire an SFGA Share subject to the terms of such plan.

Pro Forma Historical Financial Information has the meaning given in section 6.3 of this Explanatory Memorandum.

Proxy Form means the proxy form for the Scheme Meeting accompanying this Explanatory Memorandum, or the electronic version of that proxy form, utilised for electronic proxy lodgement at www.investorvote.com.au.

PwC means PricewaterhouseCoopers.

Recommendation has the meaning given to that term in clause 7.1(a)(i) of the Scheme Implementation Agreement.

Record Date means 5.00pm (Sydney time) on Friday, 15 August 2014, or such other time and date agreed in writing between IOOF and SFGA.

Regulatory Authority means:

- a) any government or local authority, any department, minister or agency of any government and any other governmental, administrative, fiscal, monetary or judicial body; and
- b) any other authority, agency, commission or similar entity having powers or jurisdiction under any law or regulation or the listing rules of any recognised stock or securities exchange,

in Australia.

Related Body Corporate of a corporation means a related body corporate of that corporation within the meaning of section 50 of the Corporations Act.

Relevant Interest has the meaning given to that term in the Corporations Act.

Representative means any person acting for or on behalf of a party including any director, officer, employee, agent, contractor or professional advisor of a party.

Requisite Majorities means in relation to the Scheme Resolution, the Scheme Resolution being passed by:

- a) a majority in number of SFGA Shareholders present and voting at the Scheme Meeting (in person, by proxy or by corporate representative or attorney); and
- b) at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by corporate representative or attorney), at the Scheme Meeting.

Responsible Entity has the meaning given to that term in the Corporations Act.

RG 60 means Regulatory Guide 60 issued by ASIC on 22 September 2011 as updated from time to time.

RG 111 means Regulatory Guide 111 issued by ASIC on 30 March 2011 as updated from time to time.

RSE licence means Registrable Superannuation Entity licence.

Sale Nominee means the person appointed by IOOF to sell the New IOOF Shares that are attributable to Ineligible Overseas Shareholders under the terms of the Scheme.

Scheme means the Scheme of Arrangement proposed between SFGA and the SFGA Shareholders, the form of which is contained in Annexure C of this Explanatory Memorandum subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by SFGA.

Scheme Consideration means the consideration to be provided to Scheme Shareholders under the terms of the Scheme, for the transfer to IOOF of their Scheme Shares, as described in clause 5 of the Scheme Implementation Agreement.

Scheme Implementation Agreement means the Scheme Implementation Agreement entered into between SFGA and IOOF on Friday, 16 May 2014.

Scheme Meeting means the meeting of SFGA Shareholders to be convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act.

Scheme of Arrangement means a scheme of arrangement under Part 5.1 of the Corporations Act.

Scheme Resolution means the resolution put to SFGA Shareholders at the Scheme Meeting to approve the Scheme.

Scheme Share means an SFGA Share on issue on the Record Date.

Scheme Shareholder means each person who holds SFGA Shares as at the Record Date.

Second Court Date means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Security Interest has the meaning given in section 12 of the *Personal Property Securities Act 2009* (Cth).

SFGA or Company means SFG Australia Limited ACN 006 490 259 of Level 18, 50 Bridge Street, Sydney NSW 2000.

SFGA Board means the board of directors of SFGA.

SFGA Director means a director of SFGA.

SFGA Due Diligence Material means the information disclosed by or on behalf of SFGA and its Subsidiaries to IOOF and its advisers prior to the date of the Scheme Implementation Agreement in the online data room and physical data room established for the purposes of the Transaction.

SFGA Employee Incentive Plan is the Group's long term incentive share plan operated by SFGA in accordance with the SFGA Group Long Term Incentive Share Plan Trust Deed.

SFGA FY14 Dividend means any final dividend, fully franked or otherwise, for each SFGA Share to be declared by SFGA in respect of the financial year ended 30 June 2014.

SFGA Information means all information included in this Explanatory Memorandum, other than the IOOF Information, the Independent Expert's Report and the Investigating Accountant's Report.

SFGA Material Adverse Change means Specified Events which, individually or when aggregated with all such events, have or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the Group, and which would include:

- a) the value of total consolidated Net Assets of the Group being reduced, or which could reasonably be expected to be reduced, by \$25,600,000 or more; or
- b) the Underlying NPAT of the Group being reduced or which could reasonably be expected to be reduced, by \$5,400,000 or more per annum on a recurring basis,

other than an event, occurrence or matter:

- c) contemplated or required to be done or procured by SFGA pursuant to the Transaction Documents;
- d) to the extent that it was fairly disclosed in the SFGA Due Diligence Materials; or
- e) to the extent that it was fairly disclosed in documents that were publicly available prior to the date of the Scheme Implementation Agreement from public filings of SFGA with the ASX;
- f) comprising a change to legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Regulatory Authority (whether or not retrospective in effect), including in relation to tax; or
- g) relating to any material adverse change or disruption to the existing financial markets or economic conditions of Australia, the United Kingdom, the United States of America, Hong Kong or China.

SFGA Prescribed Occurrence has the meaning given to that term in the Scheme Implementation Agreement.

SFGA Share means one fully paid ordinary share in the capital of SFGA.

SFGA Shareholder means a holder of SFGA Shares from time to time.

SFGA Share Register means the register of members of SFGA maintained by or on behalf of SFGA in accordance with section 168(1) of the Corporations Act.

SFGA Share Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277).

SFGA Special Dividend means a fully franked dividend being a cash amount per SFGA Share equal to the amount given by the following formula:

$$(IOOF\ FY14\ Dividend \times 0.104) - SFGA\ FY14\ Dividend$$

provided that the references to the IOOF FY14 Dividend and SFGA FY14 Dividend in the formula above will include the value of any franking credits attaching to the respective dividends on the basis that the credits will be valued at 100% of their face value.

SFGA Warranties means the warranties made by SFGA set out in clause 11.5 of the Scheme Implementation Agreement.

Share Consideration means New IOOF Shares received as Scheme Consideration.

SMSF means self-managed superannuation fund.

Specified Events means an event, occurrence or matter that:

- a) occurs after the date of the Scheme Implementation Agreement;
- b) occurs before the date of the Scheme Implementation Agreement but is only announced or publicly disclosed after the Scheme Implementation Agreement; or
- c) will occur after the Scheme Implementation Agreement and which has not been publicly announced prior to the Scheme Implementation Agreement.

Subsidiary means a subsidiary within the meaning given to that term in the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which in the determination of the SFGA Board, acting in good faith, and after receiving advice from its external legal and external financial advisors, would, if it is completed, be more favourable to SFGA Shareholders (as a whole) than the Transaction, taking into account all aspects of the Competing Proposal, including:

- a) the value of the consideration payable to SFGA Shareholders under the Competing Proposal (as compared to the consideration available under the Transaction);
- b) the conditions of the Competing Proposal, the likelihood of those conditions being satisfied and the level of certainty in respect of the funding required for the Competing Proposal; and
- c) the likely timing required to implement or complete the Competing Proposal.

Takeover Bid means a takeover bid under Chapter 6 of the Corporations Act.

Third Party means a person other than IOOF, SFGA, or their respective Related Bodies Corporate.

Trading Day has the meaning given to that term in the ASX Listing Rules.

Transaction means the proposed acquisition of all issued SFGA Shares by IOOF under the Scheme.

Transaction Document means

- a) this Explanatory Memorandum;
- b) the Scheme Implementation Agreement; and
- c) the Deed Poll.

Underlying NPAT means net profit after tax excluding amortisation and one-off, non-operational items for the IOOF Group or the Group (as applicable) calculated in accordance with the accounting policies and practices applied by the IOOF Group or the Group (as applicable) in preparing the financial statements for the period ending 31 December 2013, as stated and disclosed in those financial statements filed with the ASX.

Unvested Performance Rights means Performance Rights that are yet to vest under the terms of their issue.

UPAT means underlying profit after tax.

Voting Intention has the meaning given to that term in clause 7.1(a)(ii) of the Scheme Implementation Agreement.

VWAP means volume weighted average price.

Independent Expert's Report



**Independent Expert's Report and Financial Services
Guide**

In relation to the proposed Scheme of Arrangement
between IOOF Holdings Limited and SFG Australia
Limited

27 June 2014





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PART 1 – INDEPENDENT EXPERT'S REPORT

Private and confidential

27 June 2014

The Directors
SFG Australia Limited
Level 18
50 Bridge Street
Sydney NSW 2000

Dear Sirs

Independent expert's report in relation to the proposed Scheme of Arrangement between IOOF Holdings Limited and SFG Australia Limited

Introduction

On 16 May 2014, SFGA announced that it had entered into a Scheme Implementation Agreement with IOOF under which it is proposed that IOOF will acquire all of the shares in SFGA (**SFGA Shares**) by way of a Scheme of Arrangement (**Scheme**). Under the terms of the proposed transaction, if the Scheme is approved and implemented, SFGA shareholders (**SFGA Shareholders**) will receive the following consideration (**Scheme Consideration**):

- a) 0.104¹ IOOF shares for each SFGA Share held (**Share Consideration**); or
- b) a cash alternative, which may be entirely cash or a combination of cash and IOOF shares depending on elections made by other Scheme Shareholders, subject to a maximum cash component of \$100 million in aggregate (**Maximum Cash Consideration**)

The Scheme Consideration implies a value per SFGA Share of \$0.90 per Share based on IOOF's 90 day volume weighted average price (**VWAP**) of \$8.70 per share to 15 May 2014. The proposed transaction implies a value of SFGA of \$670 million².

SFGA Shareholders that elect to receive the Maximum Cash Consideration will receive the Scheme Consideration in cash, unless the total amount of cash required to pay all such Shareholders would exceed \$100 million, in aggregate. In this case, the amount of Scheme Consideration received in cash will be scaled back and the balance of Scheme Consideration will be paid in IOOF shares. For those SFGA Shareholders who elect to receive shares, the ratio and number of shares to be received is fixed¹. For those who elect to receive the Scheme Consideration in cash, and the cash component is scaled back, the number of shares received may change. In both circumstances, the implied value of the Scheme Consideration will be impacted by any movements in the market value of IOOF shares up until the Scheme implementation date, currently expected to be 20 August 2014.

¹ The ratio of 0.104 will be subject to an adjustment in the event that the record date for the IOOF FY14 dividend occurs before the implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to provide SFGA Shareholders the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme. To ensure that SFGA Shareholders receive the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme, a corresponding deduction to the IOOF 10 day VWAP will also take place. However, based on the current timetable, it is not anticipated that any such adjustments will be required

² Equity value based on the 90 day VWAP to 15 May 2014 and SFGA Shares outstanding of 741 million including performance rights



The proposed Scheme is subject to the satisfaction or waiver of various conditions, as well as the approval of SFGA Shareholders and the Federal Court of Australia. The Board of SFGA has unanimously recommended that SFGA Shareholders vote in favour of the Scheme, in the absence of any superior proposal. Further, SFGA directors intend to cause any SFGA Shares in which they have a relevant interest to be voted in favour of the Scheme in the absence of any superior proposal.

Additionally, SFGA Shareholders who hold IOOF shares on the record date for the IOOF dividend are expected to receive a final dividend for each IOOF share held in respect of the financial year ending 30 June 2014. The record date for this dividend is after the proposed date of implementation of the Scheme.

If the Scheme is approved and implemented, all of the SFGA Shares will be transferred to IOOF, and SFGA will become a wholly owned subsidiary of IOOF.

In order to assist SFGA Shareholders in assessing the merits of the proposed transaction, the directors of SFGA have engaged us to prepare an independent expert's report setting out whether, in our opinion, the proposed Scheme is fair and reasonable to, and in the best interests of, SFGA Shareholders. Our report (including this letter) will accompany the Explanatory Memorandum to be sent to SFGA security holders.

In preparing our report, we have had regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 (RG 111) *Content of expert reports*. As the Scheme achieves the same outcome as a takeover bid, given IOOF proposes to acquire all of the outstanding shares in SFGA, we have evaluated the Scheme as a control transaction and formed an opinion as to whether the Scheme is "fair and reasonable". RG 111 provides guidance as to how the term "fair and reasonable" should be interpreted in a range of circumstances. With respect to a takeover bid:

- ▶ an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares."; and
- ▶ an offer is 'reasonable' if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.17 indicates that "if an expert would conclude that a proposal was "fair and reasonable" if it was in the form of a takeover bid, it will also be able to conclude that the scheme is in the best interests of the members of the company". RG 111.62 also provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

Summary of opinion

We have determined whether the proposed Scheme is fair by comparing the assessed value of an SFGA Share, on a controlling interest basis, to the fair market value of the Scheme Consideration that will be received by SFGA Shareholders in the event that the Scheme is approved and implemented. The table below presents a summary of the assessed value of the Scheme Consideration and an SFGA Share:

Comparison of the fair market value of an SFGA Share to the proposed Scheme Consideration		
<i>Currency: \$</i>	Low	High
Value of Scheme Consideration	0.84	0.88
Assessed value of SFGA per share (on a control basis)	0.85	0.95

Source: EY



The assessed value of an SFGA Share on a fully diluted controlling interest basis is \$0.85 to \$0.95 per share is consistent with this range. The value of the Scheme Consideration being between \$0.84 to \$0.88 per SFGA Share.

The Scheme Consideration represents a premium to the share price of SFGA Shares prior to the announcement of the Scheme. The Scheme Consideration represents a premium of 15% to 19% to the closing price of \$0.73 per SFGA Share on 15 May 2014, being the last trading day prior to the announcement of the Scheme. Further, the one month volume weighted average price (**VWAP**) to 15 May 2014 was \$0.72 and the three month VWAP to 15 May 2014 was \$0.73. The Scheme Consideration therefore represents a premium to the trading price of SFGA Shares prior to the announcement of the scheme of between 15% and 21%. Our assessed value range for SFGA Shares includes a premium for control.

As of 25 June 2014, the trading prices of IOOF and SFGA were \$8.44 and \$0.86 respectively. The current trading price of IOOF compares to the value of the Scheme Consideration per IOOF share of \$8.07 to \$8.50 assuming the Scheme is approved and implemented. For SFGA, the current trading price falls within our valuation range, indicating that the share price includes a control premium associated with the proposed Scheme.

As the Scheme Consideration is consistent with the range of the assessed value of an SFGA Share we consider the terms of the proposed Scheme to be fair. Under the guidance provided by RG 111, as we consider the terms to be fair, we also consider the terms to be reasonable, and accordingly, in the best interests of Scheme Shareholders.

Other factors

Notwithstanding the above conclusion that the terms of the proposed Scheme are fair and reasonable, we have also considered other factors that SFGA Shareholders should consider in forming their views as to whether or not to vote in favour of the Scheme.

Certain of the factors outlined below may only be an advantage or disadvantage to the extent that an SFGA Shareholder receives scrip for at least a portion of their SFGA shareholding and continues to hold those IOOF shares. Those SFGA Shareholders that elect to and ultimately receive cash only, or those shareholders who decide to sell their IOOF shares, will not consider various of these factors to be advantages or disadvantages.

Advantages

SFGA Shareholders are receiving a premium to the share price of SFGA prior to the announcement of the Scheme

The Scheme provides SFGA Shareholders with the opportunity to realise value for their SFGA Shares in excess of the price at which they traded prior to the announcement of the Scheme on 15 May 2014.

The Scheme Consideration of \$0.84 to \$0.88 for each SFGA Share held represents a premium of between 15% and 21% to the closing price of \$0.73 per SFGA Share on 15 May 2014, being the last trading day prior to the announcement of the Scheme. Further, as the one month VWAP to 15 May 2014 was \$0.72 and the three month VWAP to 15 May 2014 was \$0.73, it represents a similar premium to recent share prices. In the absence of any acquisition, or similar form of transaction, SFGA Shareholders may be unable to realise a control premium above the minority interest value.

We note that shares issued to SFGA Shareholders will comprise between 22% and 25% of total IOOF shares on issue, on a fully diluted basis. The lower proportion of 22% assumes the Maximum Cash Consideration cap of \$100 million is utilised with the 25% assuming the Scheme Consideration only comprises IOOF shares. This is not unreasonable for SFGA Shareholders who are contributing just under 20% of FUMAS to the combined group, and 22% of value based on the relative market capitalisations of each company prior to the announcement of the Scheme.



SFGA Shareholders will be part of a larger, more diversified group

If the proposed Scheme is approved and implemented, the Combined Group will continue to provide wealth management solutions across an end-to-end service model with approximately \$154.5 billion in FUMAS and an estimated 1,119 advisers³. In particular, SFGA's focus on high net worth individuals and small to medium enterprises will be complemented by IOOF's platforms and product range, together facilitating the provision of advice, portfolio administration, accounting, insurance, SMSF and investment management services⁴. The Combined Group will become the third largest advice business in Australia by FUA and one of the largest ASX listed wealth management businesses⁵. Its greater scale and expanded capital base may enhance its ability to pursue further growth opportunities. This may be considered to be an advantage for those SFGA Shareholders who receive and choose to retain their shares in IOOF.

SFGA Shareholders will continue to participate in possible future increases in the value of SFGA

Our valuation of the Scheme Consideration reflects assumptions in relation to potential future growth opportunities available, as well as the ability to realise synergies. To the extent that the Combined Group exceeds the growth expectations and achieves, or outperforms, the level of assumed synergistic benefits reflected in our valuation, existing SFGA Shareholders who receive shares in IOOF, and retain those shares, will continue to participate in any future increases in the value of IOOF.

Greater liquidity of IOOF shares

SFGA Shares are relatively illiquid. IOOF shares, on the other hand, are significantly more liquid with around 60% of shares on issue traded over a twelve month period. Further, as a result of the proposed Scheme, IOOF's market capitalisation is likely to significantly increase, to \$2.6 billion⁶. While IOOF is already included in various indices, such as the ASX 100 and ASX 200, there may still be an increase in demand for its shares, particularly from index linked investment or tracker funds. This may be considered to be an advantage for those SFGA Shareholders who receive, and choose to hold their shares in IOOF for some period of time.

Higher dividend yields

SFGA Shareholders that elect to receive shares in IOOF, and retain those shares, may receive a higher dividend yield, than was received as a shareholder of SFGA. As set out in section 5.12 of the Explanatory Memorandum, IOOF's current dividend policy indicates a targeted payout ratio of 60% to 90% of Underlying NPAT, with the company's stated intention to maintain this policy if the Scheme is approved and implemented. With this policy in place, IOOF has historically paid out between 80% and 90% of Underlying NPAT over FY11 to FY13, providing an average yield of 5.0% over this period⁷. Over the same period, SFGA's payout ratio has ranged between 50% and 70% of Underlying NPAT, providing an average yield of 3.2%⁸. In the event that the Scheme is approved and implemented, based on the current share price of IOOF as at 25 June 2014 and assuming the payout ratio policy of between 60% to 90% is maintained as is currently intended, the yield of the Combined Group would range between 4.9% and 7.3%.

We note that both SFGA and IOOF have historically paid fully franked dividends over the last four years at least, and therefore it is likely going forwards that SFGA Shareholders currently able to utilise franking credits would remain able to do so⁹.

³ As at 31 March 2014, Page 5, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁴ Page 3, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁵ Page 4, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁶ Based on 25 June 2014 market capitalisation for each of SFGA and IOOF aggregated, CapitalIQ

⁷ Calculation based on the IOOF share price one day prior to the announcement of the Scheme

⁸ Calculation based on the SFGA Share price one day prior to the announcement of the Scheme

⁹ Challenger Limited's dividends over the historical period shown have been 0% franked, BT Investment Management Limited's were 50% franked in FY13 only and K2 Asset Management's FY11 dividend was 80% franked



As such, to the extent that SFGA Shareholders elect to receive at least part of the Scheme Consideration in IOOF shares and continue to hold their IOOF shares, they may benefit from a greater dividend yield.

Disadvantages

Costs associated with the Scheme

As set out in the Explanatory Memorandum, SFGA estimates that it will incur total transaction costs of approximately \$6.2 million. The majority of these would be incurred irrespective of whether or not the proposed Scheme was approved and implemented.

In addition to the above, if the Scheme is not approved and implemented, SFGA may be obligated to pay a \$6.0 million break fee to IOOF as set out in section 3.4 (c) of the Explanatory Memorandum, in certain circumstances¹⁰.

Other factors

The value of the consideration may change up until the date of the Scheme Meeting

The implied market value of the Scheme Consideration may change if the market price of IOOF shares changes up until the day immediately preceding the Scheme Meeting.

Having regard to the VWAP of IOOF, we note that the one month VWAP to 15 May 2014 was \$8.09 and the three month VWAP to 15 May 2014 was \$8.70. The share price of IOOF one day prior to the announcement of the Scheme was \$8.13 per share. IOOF's share price has subsequently increased which, all else being equal, implies a higher Scheme Consideration.

Given the historical and recent movements in the IOOF share price, we have performed some sensitivity analysis around the Scheme Consideration compared to the fair market value of each SFGA Share. The table below sets out a range of outcomes based on various assumptions. The numbers shown in the table represent the value of the Scheme Consideration. We note that in almost all of these scenarios, the Scheme Consideration is within the range of the SFGA Share value on a controlling interest basis. This analysis also indicates that the IOOF's 10 day VWAP would need to fall to less than \$8.18 per share in order for the Scheme Consideration to fall below the value range.

Sensitivity analysis – IOOF share price and SFGA multiple

Sensitivity analysis - IFL share price and SFGA multiple (synergy multiple at 12.0x)

Consideration (\$)		SFGA multiple				
		17.5x	18.0x	18.5x	19.0x	19.5x
IOOF share price	8.13	0.84	0.84	0.85	0.85	0.86
	8.24	0.85	0.85	0.86	0.86	0.87
	8.34	0.86	0.86	0.87	0.87	0.88
	8.45	0.86	0.87	0.87	0.88	0.88
	8.55	0.87	0.88	0.88	0.89	0.89

Source: EY analysis

Note: Shaded area denotes scenarios where the result is higher than the low end of our assessed value of an SFGA Share on a controlling basis

Note 1: For illustrative purposes, the above table is presented based on a synergy multiple of 12.0x reflecting the low end of our assessed range

If the Scheme is not approved the SFGA Share price would likely fall below current trading levels

If the Scheme is not approved, and in the absence of an alternative transaction, SFGA will continue to operate in its current form and be listed on the ASX. As a consequence:

- SFGA Shareholders will continue to own securities in SFGA, but will not receive any IOOF securities.

¹⁰ The break fee will be payable if the Scheme does not go ahead due to either SFGA being acquired by a third party under a competing proposal, a majority of the SFGA Directors do not recommend the Scheme or change their recommendation or there is a breach of the exclusivity provisions set out in the Scheme implantation agreement between IOOF and SFGA.



- ▶ The advantages, disadvantages and risks of the proposal, will not occur other than with respect to the one-off transaction costs of approximately \$6.2 million incurred prior to the Scheme Shareholders meeting. The majority of these costs would be incurred irrespective of whether or not the proposed Scheme was approved and implemented.
- ▶ The price of SFGA Shares will likely fall. We note that SFGA Shares rose by 18.5% on 16 May 2014 following announcement of the proposed Scheme. Since announcement, the SFGA Shares have up to 25 June 2014 continued to trade at greater than 17% higher than the closing price one day preceding the announcement. As such, it is likely that this premium would be ceased to be priced into the SFGA Shares, causing the price to decline significantly.

Some shareholders may prefer an advice business

SFGA Shareholders currently hold an interest in what is predominantly a financial advice business, with approximately 50% of its revenue generated in the form of financial advice fees generated on funds under advice. If the Scheme is approved and implemented, SFGA Shareholders will hold an interest in IOOF together with SFGA (the **Combined Group**), which will be a larger more diversified business with approximately 30% of its revenue earned from the provision of financial advice and 37% from its platform offerings. This may not necessarily be attractive to all investors. To the extent however that SFGA Shareholders do not wish to hold an interest in the Combined Group, they may elect to receive cash rather than IOOF shares or may sell their IOOF shares subsequent to the transfer.

Potential for alternative superior proposals to emerge

Over the last three years SFGA's strategy was to seek strategically attractive transactions. In particular, in the 2013 Annual General Meeting, following the unsuccessful merger with WHK Group Limited, SFGA highlighted its continued focus on the pursuit of transformational as well as tuck-in transactions in what Management referred to as a "continually consolidating and rapidly changing industry"¹¹. In making these comments and referring to recent transactions in the sector such as the acquisition of The Trust Company Limited by Perpetual Limited and the sale of Centric Wealth Limited, SFGA noted that it had appointed a number of advisors to assist in evaluating its strategic options.

Following this process, this resulted in IOOF and SFGA entering into the Scheme Implementation Agreement. No other formal offers for SFGA were received during this process.

While it is possible that an alternative proposal involving SFGA may emerge, we note that:

- ▶ since the announcement of the Scheme, no superior proposals have been received and the directors of SFGA are not aware of any potential superior alternative proposal likely to emerge
- ▶ in the event that there is a competing proposal and a superior proposal from IOOF has been publicly announced by SFGA, IOOF may exercise its rights under the Call Option Deed providing it with around 16% of the voting rights of SFGA. This may act as a deterrent to another party considering making any offer
- ▶ the terms of the implementation agreement prevent SFGA and its representatives from actively seeking alternative acquirers or from negotiating or otherwise co-operating with them in the formulation of a proposal. Furthermore, a break fee of \$6.0 million may be payable by SFGA in certain circumstances, such as SFGA entering into an alternative proposal.

These factors may reduce the likelihood of any superior proposals emerging.

Increased debt levels

IOOF currently has relatively low net debt levels of \$28.9 million as at 31 December 2013. While debt levels may increase, depending on the extent of SFGA Shareholder elections, IOOF's overall gearing

¹¹ Page 20, "2013 Full year results SFG Australia Limited", 29 August 2013



levels¹² are expected to remain lower than the average of its Australian wealth management peers of approximately 13%¹³.

Tax consequences

There may be certain tax implications for individual SFGA Shareholders in connection with the Scheme if it is approved and implemented. The exact nature and impact is uncertain and will depend on the profile of each SFGA Shareholder. These specific consequences need to be borne in mind by each SFGA Shareholder in weighing up the merits of the Scheme.

As such, Shareholders should refer to section 8 of the accompanying Explanatory Memorandum for a detailed explanation of the potential tax consequences. We understand however that for Australian resident Scheme Shareholders, roll-over relief may be available on any capital gains tax in certain circumstances but will not be available to the extent that an SFGA Shareholder elects to receive Maximum Cash Consideration.

Conclusion

Taking into consideration the matters outlined above and detailed in the attached independent expert's report, in our opinion the Scheme is fair and reasonable and therefore in the best interests of SFGA Shareholders.

Other

In preparing this independent expert's report we have considered relevant regulatory guides issued by ASIC, with particular reference to Regulatory Guide 111 *Content of experts reports*, Regulatory Guide 112 *Independence of experts* and APES 225 *Valuation Services*.

This independent expert's report constitutes general financial product advice only. In forming our opinion we have considered the interests of SFGA Shareholders as a whole, and we have not considered, nor is it practical or possible to consider, the individual circumstances of each SFGA Shareholder. The decision to vote for or against the proposed Scheme is a matter for individual shareholders. SFGA Shareholders should consider the advice in the context of their own circumstances, including investment objectives, liquidity preferences, risk profiles, tax position and expectations of future market conditions. This report should be considered in conjunction with, and not independently of, the information set out in the Notice of Scheme Meeting and Explanatory Memorandum prepared by the directors and management of SFGA. Shareholders who are in doubt as to the action they should take in relation to the proposed Scheme should consult their own professional adviser.

Similarly it is a matter for individual shareholders as to whether to buy, hold or sell shares in SFGA, IOOF or the Combined Group. This is an investment decision upon which we do not offer an opinion and is independent of a decision to vote for or against the proposed Scheme. Shareholders should consult their own professional adviser in this regard.

Our opinion is as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with, and not independently of information set out in the remainder of this report, including the appendices.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

Julie Wolstenholme
Director and Representative

Stuart Bright
Director and Representative

¹² Average net debt as a proportion of enterprise value

¹³ Based on the average 5 year net debt as a proportion of the enterprise value of IOOF's peers



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1. Details of the proposed Scheme

1.1 Overview of the proposed Scheme

On 16 May 2014, SFGA announced that it had entered into a Scheme Implementation Agreement with IOOF under which it is proposed that IOOF will acquire all of the shares in SFGA (**SFGA Shares**) by way of a Scheme of Arrangement (**Scheme**). Under the terms of the proposed transaction, if the Scheme is approved and implemented, SFGA shareholders (**SFGA Shareholders**) will receive the following consideration (**Scheme Consideration**):

- a) 0.104¹⁴ IOOF shares for each SFGA Share held (**Share Consideration**); or
- b) a cash alternative, which may be entirely cash or a combination of cash and IOOF shares depending on elections made by Scheme Shareholders, subject to a maximum cash component of \$100 million in aggregate (**Maximum Cash Consideration**)

The Scheme Consideration implies a value per SFGA Share of \$0.90 per Share based on IOOF's 90 day volume weighted average price (**VWAP**) of \$8.70 per share to 15 May 2014. The proposed transaction implies a value of SFGA of \$670 million¹⁵.

SFGA Shareholders that elect to receive the Maximum Cash Consideration will receive the Scheme Consideration in cash, unless the total amount of cash required to pay all such Shareholders would exceed \$100 million, in aggregate. In this case, the amount of Scheme Consideration received in cash will be scaled back and the balance of Scheme Consideration will be paid in IOOF shares. For those SFGA Shareholders who elect to receive shares, the ratio and number of shares to be received is fixed¹⁴. For those who elect to receive the Scheme Consideration in cash, and the cash component is scaled back, the number of shares received may change. In both circumstances, the implied value of the Scheme Consideration will be impacted by any movements in the market value of IOOF shares up until the Scheme implementation date, currently expected to be 20 August 2014. This is as the Scheme Consideration will ultimately be based on the VWAP of IOOF shares calculated in the ten trading days before the date of the Scheme Meeting, currently expected to be on 1 August 2014.

The proposed transaction is subject to the satisfaction or waiver of a number of conditions which are set out in full in the accompanying Explanatory Memorandum. In summary, the key conditions include:

- ▶ approval of the Scheme by SFGA Shareholders under section 411(4)(a)ii of the Corporations Act
- ▶ approval of the Scheme by the Federal Court of Australia under section 411(4)(b) at a hearing following the shareholder approval referred to above
- ▶ an independent expert concluding that the Scheme is in the best interests of SFGA Shareholders
- ▶ no "material adverse change" in SFGA or IOOF as defined in the Scheme Implementation Agreement
- ▶ all outstanding performance rights are vested and converted into SFGA Shares, or are cancelled or agreed to be cancelled.

¹⁴ The ratio of 0.104 will be subject to an adjustment in the event that the record date for the IOOF FY14 dividend occurs before the implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to provide SFGA Shareholders the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme. To ensure that SFGA Shareholders receive the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme, a corresponding deduction to the IOOF 10 day VWAP will also take place. However, based on the current timetable, it is not anticipated that any such adjustments will be required

¹⁵ Equity value based on the 90 day VWAP to 15 May 2014 and SFGA Shares outstanding of 741 million including performance rights



Additionally, SFGA Shareholders holding IOOF shares on the record date for the IOOF dividend are expected to receive a final dividend per IOOF share in respect of the financial year ending 30 June 2014. The record date for this dividend is after the proposed date of implementation of the Scheme.

In the event that implementation of the Scheme occurs after the record date for the IOOF FY14 dividend, such that SFGA Shareholders would not be entitled to receive this dividend, the SFGA directors may, in their discretion (and would, in those circumstances intend to as per the Explanatory Memorandum), declare and pay an SFGA dividend (including any special dividend) in respect of the financial year ending 30 June 2014¹⁶. Any such SFGA dividend(s) combined will equal the IOOF FY14 dividend amount Scheme Shareholders would have received had implementation of the Scheme occurred prior to the record date for the IOOF FY14 dividend. Similarly, if any dividend is paid on IOOF shares, or a record date for any other IOOF dividend occurs prior to the Scheme implementation date, the number of new shares to which Scheme Shareholders will be entitled will be increased to reflect the value of the dividend.

The Board of SFGA has unanimously recommended that SFGA Shareholders vote in favour of the Scheme, in the absence of any superior proposal. Further, SFGA directors intend to cause any SFGA Shares in which they have a relevant interest to be voted in favour of the Scheme, in the absence of any superior proposal.

Several SFGA Shareholders¹⁷ have entered into call option deeds (**Call Option Deed**) giving IOOF the right to purchase, in aggregate, approximately 16% of the issued share capital in SFGA in certain circumstances. In accordance with the terms of the Call Option Deed, IOOF may exercise its options if there is a competing proposal and a superior proposal from IOOF has been publicly announced by SFGA¹⁸. The terms of the Call Option Deed are further discussed in section 3 of this report.

The Scheme Implementation Agreement includes various exclusivity provisions. Under these provisions SFGA may not solicit or encourage any competing proposal as set out in the accompanying Explanatory Memorandum. A break fee of \$6.0 million is payable by SFGA to IOOF in certain circumstances, including where a competing proposal is announced before the Scheme Meeting and completed within twelve months, as set out in the Explanatory Memorandum.

If the Scheme is approved by SFGA Shareholders and implemented, IOOF intends to, subject to a review of all relevant material facts and circumstances at the time, undertake the following:

- ▶ Seek to have SFGA removed from the official list of the ASX.
- ▶ Appoint a number of individuals to the SFGA Board and on the date of the implementation of the Scheme, take all actions necessary to ensure that the outgoing SFGA Directors resign.
- ▶ Establish a transition team to facilitate the integration of SFGA within IOOF to minimise disruption to business operations.
- ▶ Integrate the businesses and seek to improve the efficiency and profitability across the merged group. This is expected to include the removal of duplication, expanding the range of offerings to clients of the merged group, consolidation and migration of IT infrastructure, and centralisation and consolidation of shared services.
- ▶ Maintain IOOF's current head office located in Melbourne and where possible, co-locate offices.
- ▶ Retain SFGA's client facing brands, operating model and client proposition such that SFGA continues to operate largely on a "business as usual" basis. Additionally, IOOF intends to facilitate the access of SFGA's clients to IOOF's products and services.

¹⁶ Explanatory Memorandum, Letter from the SFGA Chairman

¹⁷ These include SFGA Directors who are also Shareholders as well as Kevin Bailey, Grace Bailey and their associates

¹⁸ Call Option Deed dated 14 May 2014, page 10 appended to the ASX Change in substantial shareholder notice released 16 May 2014



- ▶ Establish a new advisory forum involving three existing SFGA Directors to advise the SFGA businesses following the implementation of the Scheme. These directors include Tony Fenning, James Kilkenney and John Gannon.
- ▶ Maintain IOOF's current dividend policy of paying dividends in the range of 60% to 90% of underlying net profit after tax (**NPAT**) on an annualised basis, and maximising the extent to which these dividends are franked.

These views reflect IOOF's current intentions, as set out in the accompanying Explanatory Memorandum, and may be subject to change following a more detailed review of the business by IOOF upon implementation of the Scheme.



2. Scope of the independent expert's report

2.1 Purpose of the independent expert's report

The proposed transaction is to be implemented by way of a Scheme of Arrangement under Section 411 of the Corporations Act, 2001 (**Act**) between SFGA and its shareholders. If approved by SFGA shareholders, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations 2001 (**Corporations Regulations**) prescribes the information to be sent to the security holders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state the reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Act or the Australian Securities Exchange Listing Rules, the directors of SFGA have engaged us to prepare an independent expert's report setting out whether, in our opinion, the proposed Scheme is fair and reasonable to, and in the best interests of, SFGA Shareholders. Our report will accompany the Explanatory Memorandum to be sent to SFGA security holders.

2.2 Basis of evaluation

There is no legal definition of the term "in the best interests of" in the Act or the Corporations Regulations. However, the Australian Securities and Investment Commission (**ASIC**) has issued Regulatory Guide 111 *Content of expert reports* (**RG 111**) which provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

Importantly, RG 111 differentiates between the analysis required for control transactions and other transactions. In the context of a control transaction, where the transaction has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. In these instances, the independent expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" is defined in RG 111 to be in the best interests of shareholders.

As the Scheme achieves the same outcome as a takeover bid, given IOOF proposes to acquire all of the outstanding shares in SFGA, we have evaluated the Scheme as a control transaction and formed an opinion as to whether the Scheme is "fair and reasonable".

RG 111 provides guidance as to how the term "fair and reasonable" should be interpreted in a range of circumstances. With respect to a takeover bid:

- ▶ an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares."; and
- ▶ an offer is 'reasonable' if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.



RG 111.62 also provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

We have determined whether the proposed Scheme is fair by comparing the estimated value of SFGA, on a controlling interest basis, to the fair market value of the consideration being offered by IOOF. The proposed Scheme is considered fair if the proposed consideration falls within the range of underlying values estimated for SFGA. In considering whether the proposed Scheme is reasonable, we also considered the following matters:

- ▶ the strategic rationale for the transaction and IOOF's intention with respect to SFGA
- ▶ the liquidity of and prices at which SFGA Shares have recently traded at on the ASX and the premium that IOOF is paying over pre-announcement trading levels
- ▶ the existence of alternatives to the proposed Scheme and the consequences for SFGA Shareholders
- ▶ the likelihood of a superior proposal being received
- ▶ the likely impact on SFGA's share price in the event that the proposed transaction is not approved
- ▶ other advantages and disadvantages that SFGA Shareholders should consider in assessing whether to approve the Scheme

In undertaking our assessment of the Scheme we have had regard to a number of references including ASIC Regulatory Guidelines, in particular, RG 111 and Regulatory Guide 112 *Independence of experts*, and relevant market valuation guidelines and generally accepted practices in the preparation of expert reports. This report has also been prepared in accordance with APES 225 *Valuation Services* issued by the Accounting Professional & Ethical Standards Board Limited in July 2008.

All amounts in this report are expressed in Australian dollars unless otherwise stated. A glossary detailing the abbreviations we have used in this report is contained in Appendix I - *Glossary*.

2.3 Fair market value

We have assessed the value of SFGA on a fair market value basis. Fair market value in this context is considered to be:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length"

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

2.4 Limitations and reliance on information

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in Appendix B – *Sources of information*.

This independent expert's report is based upon financial and other information provided to us by SFGA. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the implementation of the proposed Scheme is in the best interests of SFGA Shareholders. We also held discussions with SFGA management in relation to the proposed Scheme, as well as the operations,



financial position and operating results of SFGA. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of SFGA. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed
- ▶ the assessments by SFGA and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are complete and accurate
- ▶ the information set out in the Notice of Scheme Meeting and Explanatory Memorandum and accompanying documents to be sent by SFGA to Shareholders is complete, accurate and fairly presented in all material respects
- ▶ the publicly available information relied upon by us in our analysis was accurate and not misleading
- ▶ the proposed Scheme will be implemented in accordance with its terms

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A – *Statement of qualifications and declarations* of this report.

Our assessment of the proposed transaction is based on economic, market and other conditions prevailing as at the date of this independent expert's report. As evidenced in recent years these conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, our opinion could be different.

We provided draft copies of this independent expert's report to the directors and management of SFGA for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made to this independent expert's report as a result of this review by the directors and management of SFGA have not changed the conclusions reached by us.

2.5 Shareholders' decisions

This independent expert's report constitutes general financial product advice only. In forming our opinion we have considered the interests of SFGA Shareholders as a whole, and we have not considered, nor is it practical or possible to consider, the individual circumstances of each SFGA Shareholder. The decision to vote for or against the proposed Scheme is a matter for individual shareholders. SFGA Shareholders should consider the advice in the context of their own circumstances, including investment objectives, liquidity preferences, risk profiles, tax position and expectations of future market conditions. Shareholders should also have regard to the Notice of Scheme Meeting and Explanatory Memorandum prepared by the directors and management of SFGA. Shareholders who are in doubt as to the action they should take in relation to the proposed Scheme should consult their own professional adviser.

Similarly it is a matter for individual shareholders as to whether to buy, hold or sell shares in SFGA, IOOF or the Combined Group. This is an investment decision upon which we do not offer an opinion and



is independent of a decision to vote for or against the proposed Scheme. Shareholders should consult their own professional adviser in this regard.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.



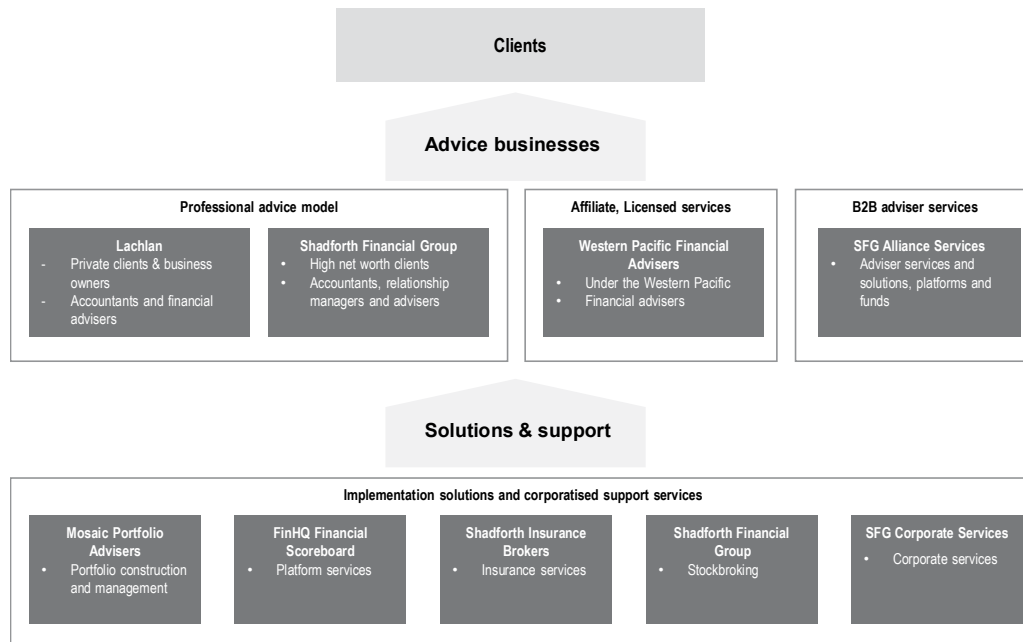
3. Overview of SFGA

3.1 Company overview

The origins of SFG Australia Limited, in its current form, (**SFGA**) date back to November 2011 when the company was renamed SFGA following the merger of Snowball Group Limited (**Snowball**), the then ASX listed financial planning and accounting advice business, with Shadforth Financial Group Holdings Limited (**SFGHL**), a financial advice group on 26 June 2011.

Both Snowball and SFGHL leading up to the merger in 2011 had grown through acquisitions within the financial planning and wealth management sector. SFGHL was established in April 2008 as a result of the amalgamation of 14 independently owned wealth management and advisory firms across key locations in Australia, certain firms of which had businesses dating back to 1924¹⁹. Similarly, Snowball, in operation since 1991, had grown substantially through the acquisition of various financial advice, wealth management and accounting businesses such as Western Pacific and Officium Capital (renamed Mosaic Portfolio Advisers Limited).

Today, SFGA is a leading non-aligned provider of a suite of financial advice and wealth management products and services to high net worth individuals and affluent clients across Australia. Its services include strategic financial advice, portfolio administration solutions, portfolio construction and management services, insurance (general and risk), finance broking, stockbroking, corporate superannuation services, accounting and tax services. Through the various entities and dealer groups integrated within the SFGA umbrella, the group is able to provide end to end services for its clients via three financial advice business models, being the professional advice, affiliate and business to business (**B2B**) adviser services models. The key brands and businesses of SFGA are set out in the chart below.



Source: "2014 Half year results SFG Australia Limited" investor presentation released 25 February 2014

As shown in the chart above, SFGA's key business models through which it provides financial advice include:

¹⁹ Page 33, Shadforth Financial Group Limited Prospectus, 11 February 2008



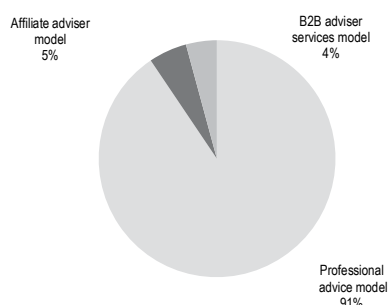
- ▶ **Professional advice** – SFGA's financial advice business operating under the Shadforth Financial Group (**Shadforth**) and incorporates the recently acquired Lachlan Partners business which is in the process of being rebranded to Shadforth. With 18 offices across Australia and in excess of 180 employed client facing financial advisers and accountants, this segment of SFGA provides tailored wealth management, investment management, tax, financial planning, family unity, trust and estate planning services as well as self-managed superannuation fund administration services.
- ▶ **Affiliate adviser services** – comprises the Western Pacific Financial Group, a financial advice dealer group with 16 practices which are owned and operated by the principal advisers under the Western Pacific brand, licence and operating systems. SFGA supports the group with dealer services and various infrastructure.
- ▶ **B2B adviser services** – encapsulates SFGA's third party relationships under SFG Alliance Services which provides support services to boutique Australian Financial Services Licence (**AFSL**) holders. This segment also includes joint venture investments in financial advice and accounting related businesses.

The above operations are supported by the following functions within the broader SFGA group:

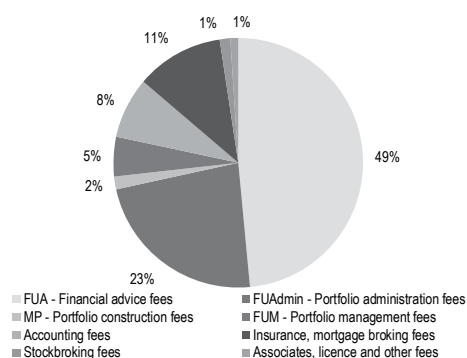
- ▶ **Adviser HQ** – a business unit of SFGA focused on developing and improving the way financial advice is provided such that clients receive the "Best Advice". This involves enhancing support systems, compliance, the client experience and marketing activities.
- ▶ **Implementation Solutions** – includes SFGA's platform relationships and stockbroking back office administration services which are currently outsourced to UBS. Key platform relationships include BT Financial Group, Asgard Wealth Solutions, Symetry Portfolio Service and Praemium.
- ▶ **Mosaic Portfolio Advisers Limited (Mosaic)** – SFGA's portfolio construction and management services function. Its activities encompass research, selection and monitoring of preferred managers and the Mosaic managed funds. It is the responsible entity of 14 investment funds. It includes SFGA's Managed Portfolio (**MP**) business which provides the Managed Portfolio Service and Dynamic Portfolio Update Service investment solutions, launched in July 2012²⁰.

SFGA's revenue is predominantly earned by way of fees. These fees are generally based on client funds under advice, administration, management and managed portfolios (the funds associated with each collectively referred to as **FUMA**). Its key revenues are comprised of financial advice fees generated on client funds under advice (**FUA**), portfolio administration fees on funds under administration (**FUAdmin**) and portfolio management and construction fees on funds under Management (**FUM**) and MP. The charts below show the proportion of net operating revenue for the half year to 31 December 2013 (**1HY14A**) by business and fee type.

1HY14A revenue by business



1HY14A revenue by fee type



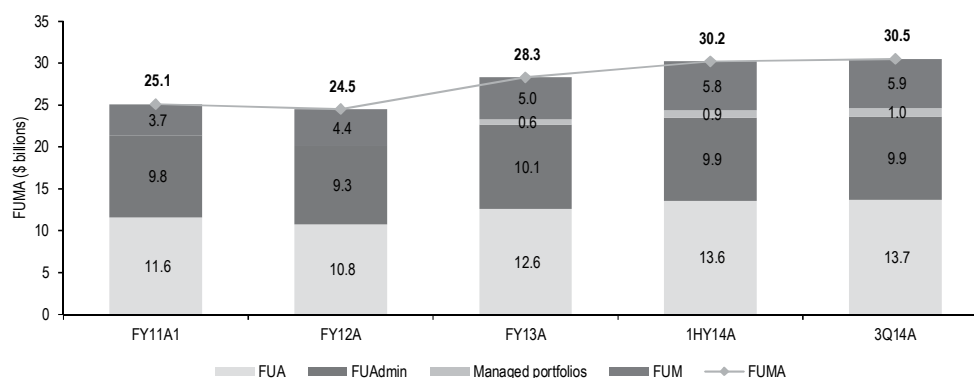
Source: "2014 Half year results SFG Australia Limited" investor presentation released 25 February 2014

²⁰ SFGA FY13 investor presentation, page 22



3.2 Funds under advice, administration and management and MP

Given the operating structure of SFGA, funds under advice, administration and management is a key driver underpinning the performance of the business with asset based fees comprising approximately 80% of revenue²¹. The chart below presents historical FUMA levels for the three years ended 30 June 2011 to 2013, the half year 31 December 2013 and the year to date 31 March 2014.



Source: "Quarterly FUMA update for the period 31 December 2013 to 31 March 2014", released 29 April 2014, "2014 Half year results SFG Australia Limited" investor presentation released 25 February 2014, FY12 and FY13 annual investor presentations

In relation to the above chart, we make the following comments:

- FY11A client funds shown represent a pro forma figure for the merged Snowball and SFGHL.
- Managed Portfolio funds were not separately presented in FY11A and FY12A financial information as the product offering in its current form was only launched in early FY12. We note that in FY12, the balance of \$0.3 billion had been included within FUAAdmin. Given the continued growth of SFGA's MP business since its launch, this figure is now reported separately.
- For the nine months to 31 March 2014 (**3Q14A**), aggregate FUMA has increased, reflecting improved equity markets both in Australia and globally. However, while overall FUMA grew, small FUAAdmin net outflows were recorded. This was in line with the trend at the half year and the company's expectations for the remainder of FY14. This largely reflects some B2B net outflows that were outweighed by net positive inflows within the professional advice business. We note that total net outflows from the platform for the three months to 31 March 2014 were \$45 million²². This may be associated with the company's new B2B service offerings which had been developed but not fully launched prior to the end of the March 2014 quarter. These new service offerings are currently being rolled out to the market.
- FUMA has grown historically since FY12 due in part to acquisitions, including the recent acquisitions of Lachlan Partners and W Corp in FY13A, as well as Pindi, a previous Western Pacific advice practice based in North Sydney, effective 1 August 2013²³.

²¹ "2014 Half year results SFG Australia Limited" investor presentation released 25 February 2014

²² "Quarterly FUMA update for the period 31 December 2013 to 31 March 2014", released 29 April 2014

²³ Note 32, SFGA 30 June 2013 annual financial report



3.3 Financial performance

3.3.1 Historical financial performance

The table below summarises SFGA's consolidated financial performance for the three years ended 30 June 2011 to 30 June 2013 and the six months to 31 December 2013.

<i>Currency: \$ millions</i>	FY11A¹	FY12A	FY13A	1HY14A⁵
Revenue from continuing operations	88.2	138.1	155.8	89.0
Other income	-	-	0.7	1.5
Share of net profits from associates accounted for using the equity method	-	0.3	0.3	0.2
Staff costs	(40.6)	(57.3)	(62.0)	(37.4)
Advertising and marketing	(0.6)	(1.0)	(0.9)	(0.6)
Communications and information technology	(1.7)	(3.3)	(6.6)	(3.5)
Occupancy expense	(4.4)	(6.5)	(6.6)	(3.4)
Professional fees	(5.0)	(7.4)	(7.3)	(2.5)
Referral fees	(0.3)	(0.4)	(0.4)	(0.2)
Trade execution expenses	(0.1)	(0.3)	(0.3)	(0.2)
Portfolio administration fees	(7.5)	(10.9)	(11.4)	(5.5)
Investment manager fees	-	(7.6)	(9.3)	(4.5)
Travel and entertainment	(0.8)	(1.2)	(1.1)	(0.7)
Depreciation	(0.8)	(1.3)	(1.3)	(0.6)
Amortisation	(2.0)	(4.3)	(5.2)	(3.1)
Impairment	-	-	(0.9)	-
Other expenses	(3.7)	(6.2)	(5.9)	(2.6)
Finance costs	(0.0)	(1.2)	(1.6)	(1.2)
Profit before income tax	20.6	29.6	36.0	24.7
Income tax expense	2.6	(18.3)	(11.8)	(7.5)
Profit for the year	23.3	11.3	24.1	17.2
For information only²				
FUMA (\$ billions)	25.1	24.5	28.3	30.2
Underlying NPAT ³	26.9	28.6	32.5	19.2
Revenue growth	n/a	56.6%	12.8%	n/a
Cost to income ratio ⁴	66.1%	64.6%	64.2%	63.8%

Source: SFGA Financial reports FY12 and FY13, Half year financial report 1HY14A, investor presentations

Note 1: FY11A reflects the results of Shadforth Financial Group only, given the results of Snowball Group Limited from the period since merging on 26 June 2011 were treated as immaterial for financial reporting purposes

Note 2: FY11A figures reflect pro forma adjustments to include full year performance for Snowball Group Limited

Note 3: Refer to Appendix D - *SFGA Underlying NPAT reconciliation* for further detail

Note 4: Calculated as operating costs as a proportion of operating revenue per investor presentations FY12 to FY13 and 1HY14A

Note 5: 1HY14A results have been extracted from SFGA's reviewed financial statements for the relevant period

In relation to SFGA's historical financial performance, we note:

- ▶ On 26 June 2011, SFGA was formed through the reverse acquisition of Snowball by SFGHL. Accordingly, FY12A financial performance presented above reflects the first full year of performance following the merger.
- ▶ Revenue from continuing operations increased by 13% from FY12A to FY13A. Growth has continued for the six months to 31 December 2013, with growth of 23% over the prior corresponding period. This growth over the historical period to 1HY14A is largely as a result of improved equity markets both within Australia and globally which have contributed to growth in FUMA. Given the majority of SFGA's revenue is generated through fees charged on FUMA, any changes in FUMA directly impact the overall performance of the business.



- ▶ Also contributing to the growth in FUMA over the historical period were several acquisitions. The most significant of these was Lachlan Partners, an integrated fee for service accounting, tax, business advisory group with FUA of approximately \$606 million at the time of acquisition in February 2013²⁴. Other recent acquisitions include W Corp during FY13A and Pindi, a small financial advisory business, during the half year to 31 December 2013.
- ▶ Investment manager fees in FY12 and beyond relate to management fees incurred in relation to the Mosaic Strategic Trusts. Mosaic operates as the responsible entity (**RE**) of a number of managed investment schemes. Its function includes selecting external investment managers to manage the various schemes' assets. The revenue of the RE is utilised to cover the cost of the external investment managers²⁵.
- ▶ Staff costs comprise the majority of operating expenses for SFGA, generally representing between 50% to 60% of total costs each year. Operating costs have remained relatively steady with the cost to income ratio averaging around 64% over FY12A to 1HY14A. This reflects Management's cost control initiatives over this period.
- ▶ Amortisation expense reflects the amortisation of intangible assets acquired as a result of the merger with Snowball and other acquisitions.
- ▶ The impairment loss recorded in FY13A reflected the impairment of SFGA's investment in Duncan Dovico Holdings Pty Limited.
- ▶ Underlying NPAT (**Underlying NPAT**), which reflects net after tax profits adjusted for amortisation expenses and various non-recurring items of revenue or expense, has grown in line with growth in operating revenues. The Underlying NPAT margin has remained relatively constant over the historical period, increasing from 23% in FY11A (on a pro forma adjusted basis for the Snowball acquisition) to 24% for 1HY14A. The various non-recurring items adjusted for to arrive at Underlying NPAT, as presented in SFGA's investor presentations to the market, are set out in Appendix D – *SFGA Underlying NPAT reconciliation*.

3.3.2 FY14 financial performance

On 25 February 2014, in the latest results and market update, SFGA, while not making any reference to full year expectations, noted the following²⁶:

- ▶ The business reaffirmed its focus on its strategic direction, targeting organic growth via initiatives to attract new clients, while continuing to pursue transformational and "tuck-in" acquisitions.
- ▶ From 1 January 2014, Outlook Financial Services, a financial advice business previously acquired by Snowball, was consolidated under the Shadforth Financial Group brand.
- ▶ The business is progressing with its plans to migrate its entire adviser and client base onto a new operating system, Xplan, which is expected by Management to facilitate business operations and enhance flexibility in the changing regulatory environment. Certain areas of the business are expected to migrate by the end of FY14 with others to commence post 1 July 2014.
- ▶ SFGA recently obtained an Investor Directed Portfolio Services (**IDPS**) licence in order to facilitate the company's potential entrance in the provision of trusteeship services by becoming the IDPS operator of the SFGA/Colonial Wrap. To this end, SFGA has engaged in discussions with APRA in respect of making an application for a registrable superannuation entity (**RSE**) licence. Based on the contractual terms with Colonial, SFGA may exercise its rights to take over the funds under the SFGA/Colonial IDPS wraps and if it proceeded with the RSE licence, may do the same in respect of superannuation.

²⁴ "Lachlan Partners joins SFG Australia" ASX announcement released 22 February 2013

²⁵ Page 20, SFGA Annual Report 2012; For statutory reporting purposes, related amounts are disclosed as gross revenue and gross expenses whereas for investor and management presentations, the net revenue is presented

²⁶ "SFG Australia delivers solid 1H14 results" ASX announcement released 25 February 2014



- SFGA had successfully implemented the first phase of the government's Future of Financial Advice (FoFA) reforms from 1 July 2013 with the business on track to meet further anticipated requirements.

While SFGA has not provided guidance for FY14, we note that one day prior to the announcement of the Scheme, analyst forecasts for SFGA Underlying NPAT averaged approximately \$38 million²⁷.

3.4 Financial position

The table below shows the financial position of SFGA as at 30 June 2013 and 31 December 2013.

<i>Currency: \$ millions</i>	Jun13A	Dec13A¹
Cash and cash equivalents	29.0	29.4
Trade and other receivables	19.7	20.8
Work in progress	0.8	1.1
Current assets	49.5	51.2
Investments	4.4	4.8
Property, plant & equipment	4.3	4.0
Deferred tax assets	5.1	5.6
Intangible assets	188.1	186.6
Non-current assets	202.0	201.0
Total assets	251.4	252.2
Trade and other payables	20.3	19.5
Borrowings	0.5	0.5
Current tax liabilities	0.4	1.5
Provisions	11.1	10.0
Deferred consideration	6.4	4.0
Current liabilities	38.7	35.5
Borrowings	22.7	22.2
Deferred tax liabilities	12.3	12.0
Provisions	1.2	1.0
Deferred consideration	13.3	11.0
Non-current liabilities	49.5	46.2
Total liabilities	88.2	81.7
Net assets	163.3	170.6
Contributed equity	145.5	145.5
Reserves	0.5	0.9
Retained profits	17.3	24.2
Total equity	163.3	170.6

Source: SFGA Financial reports FY12 and FY13, Half year financial report 1HY14A, investor presentations

Note 1: The Dec13A balance sheet position has been extracted from SFGA's reviewed financial statements for the relevant period

In relation to the financial position of SFGA presented above, we note:

- Cash and cash equivalents as at 31 December 2013 totalled \$29.4 million. The strong cash balance allow SFGA to meet its regulatory and working capital requirements, fund deferred consideration payments of \$15.0 million and explore mergers and acquisition opportunities²⁸. We note that subsequent to 31 December 2013, SFGA paid a \$10.3 million interim dividend on 23 April 2014 which was fully franked.
- Trade receivables are net of an impairment provision of \$0.8 million largely relating to retail clients.

²⁷ CapitalIQ as at 15 May 2014

²⁸ "SFG delivers solid 1H14 results" ASX announcement released 25 February 2014



- ▶ Investments include shares in associates accounted for using the equity method and investments in listed and unlisted Australian equity securities recorded as financial assets at fair value. Associates include Duncan Dovico Holdings Pty Limited and QT Financial Planning Pty Limited. Financial assets include SFGA's passive investment in Steadfast Group Limited.
- ▶ Property, plant and equipment includes furniture and fittings, office equipment and leasehold improvements held at cost or fair value, net of accumulated depreciation.
- ▶ Intangible assets reflect those intangible assets recognised as a result of previous acquisitions. In the six months to 31 December 2013, preliminary purchase accounting in respect of the acquisition of Pindi resulted in the recognition of further intangible assets, inclusive of goodwill, of \$1.4 million. Intangible assets on the balance sheet include goodwill, client contracts and related client relationships, portfolio management rights and brand names. These intangible assets are amortised over periods of between 13 and 30 years. The largest amortisable intangible asset is client contracts and customer relationships of \$40.9 million as at 30 June 2013 which is amortised over up to 13 years. Goodwill of \$146.8 million, in aggregate, has been allocated to SFGA's professional advice cash generating unit and is regularly tested for impairment in accordance with financial reporting requirements.

The large contribution of intangible assets means that SFGA had net tangible liabilities of \$16.0 million as at 31 December 2013.

- ▶ Deferred consideration relates to anticipated future payments to be paid in relation to prior acquisitions where certain post-transaction performance hurdles are met. This balance is recorded at fair value based on expectations regarding the likelihood that the contracted performance hurdles are achieved during the contracted deferral period. In the six months to 31 December 2013, the balance reduced largely due to the payment of certain amounts (approximately \$4.1 million) and the reversal of an amount previously expected to be paid as deferred consideration (approximately \$1.1 million)²⁹. As described in section 4.5 of the Explanatory Memorandum, based on current estimates, the deferred consideration in respect of the acquisition of Lachlan Partners may be reduced by up to \$3.7 million
- ▶ During the six months to 31 December 2013, SFGA successfully renegotiated its banking facilities, extending their maturity for a further three years through to November 2017. We understand that the terms were not materially different from the prior terms.
- ▶ Net assets and net cash as at 31 December 2013 were \$170.6 million and \$6.7 million respectively.

3.5 Capital structure and shareholders

As at 25 June 2014, SFGA had on issue 734,531,160 fully paid ordinary shares. Shareholders with 5% or more of the voting power in the shares of SFGA are set out in the table on the following page.

The IOOF interests held as shown in the table represent the shares IOOF is entitled to acquire as a result of the Call Option Deed entered into on 16 May 2014³⁰ with certain SFGA Shareholders, including SFGA Directors who are also shareholders, and Kevin Christopher Bailey, Grace Genevieve Bailey and their associates. The Call Option Deed provides IOOF the right to purchase, in aggregate, approximately 16% of the issued share capital in SFGA, in certain circumstances, if it chose to proceed with a scheme of arrangement or takeover offer in respect of the SFGA Shares. In accordance with the terms of the Call Option Deed, IOOF may exercise its options if there is a competing proposal and a superior proposal from IOOF has been publicly announced by SFGA³¹.

The 115,057,142 SFGA Shares in respect of which IOOF has voting power includes 49,762,469 SFGA Shares in respect of which Kevin Christopher Bailey, Grace Genevieve Bailey and their associates

²⁹ Page 23, Note 7, SFGA half year financial report 31 December 2013

³⁰ Notice of initial substantial holder issued by IOOF on 16 May 2014

³¹ Call Option Deed dated 14 May 2014, page 10 appended to the ASX Change in substantial shareholder notice released 16 May 2014



(Bailey Holdings) have voting power. As IOOF has not exercised the rights it has to acquire the SFGA Shares under these agreements, both IOOF and the Bailey Holdings are shown in the table as holding 5% or more of SFGA Shares. Please refer to section 9.1 of the Explanatory Memorandum for further details.

The following table summarises the substantial shareholders of SFGA as at 25 June 2014:

Name of shareholder	No. of shares	% of shares held
IOOF Holdings Limited	115,057,142	15.66%
Kevin Christopher Bailey, Grace Genevieve Bailey and their associates	49,762,469	6.77%
Total shares on issue	734,531,160	100.00%

Source: Management, IOOF change of substantial shareholder notice in SFGA, 16 May 2014

In relation to the share capital of SFGA, we note the following:

- ▶ SFGA also has in place an employee share scheme, the SFG Australia Limited Employee Incentive Plan under which certain options and performance rights may be granted to employees. Neither the options nor performance rights have voting rights. As at 30 June 2013, there were two holders of 1,200,000 options and 6 holders of 4,509,033 performance rights. We understand that all options have expired and that performance rights as at 25 June 2014 of 5,336,562³², including the 3,000,000 performance rights held by Mr Fenning (Managing Director of SFGA), will vest and be converted to SFGA Shares if and when the Scheme is approved and becomes effective.
- ▶ As announced to the ASX on 30 May 2014, Mrs Linda Fox, Company Secretary and Chief Financial Officer of SFGA, has resigned and will cease employment with SFGA on 11 July 2014. As at 25 June 2014, Mrs Linda Fox held 1,165,351 performance rights. The SFGA Board has in its discretion agreed that 343,040 of her performance rights will vest on 26 June 2014 and shares issued in the following week. The remainder of performance rights will lapse. Please refer to section 9.2 of the Explanatory Memorandum for further details.
- ▶ Holders of ordinary shares are entitled to any dividends declared and proceeds on the winding up of the company in the proportion to the number of shares held. Each holder present at a company meeting is entitled to one vote on a show of hands and one vote per share held on a poll.
- ▶ The top twenty shareholders represent approximately 54.3% of SFGA's equity capital.

3.6 SFGA Share price performance

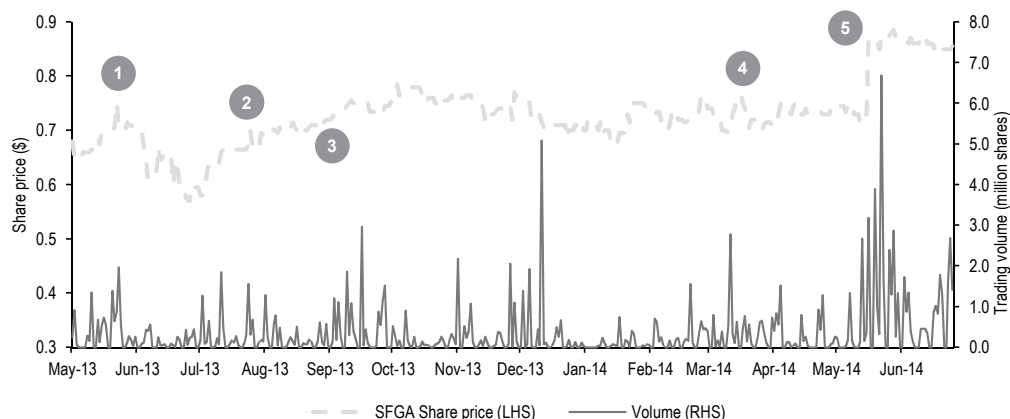
SFGA Shares are listed on the ASX. Originally trading as Snowball, following the merger between SFGHL and Snowball in June 2011, the company changed its name to SFGA.³³ The following graph depicts the daily share price and trading volumes for SFGA Shares for the period from 1 May 2013 to 25 June 2014:

³² This figure is net of the 1,165,351 performance rights held by Mrs Linda Fox as at 25 June 2014

³³ Snowball shares had traded under the ticker "SNO" prior to the merger. Subsequently, the shares traded under "SFW"



SFGA share price and volume history



Source: CapitalIQ

SFGA's share price has traded at an average price of \$0.70 per share over the twelve month period prior to the announcement of the Scheme. Over the period, shares reached a low of \$0.57 per share on 25 June 2013 and a high of \$0.79 per share on 3 October 2013. The share price closed at \$0.73 per share on 15 May 2014, the day prior to the announcement of the Scheme.

The table below summarises the key announcements that have affected the share price and/or the volume traded of SFGA Shares over the period.

Ref	Announcement date	Details
1	7 May 2013	SFGA withdrew the proposal for the acquisition WHK Australia
2	24 July 2013	SFGA announced the appointment of financial advisors, including Bank of America Merrill Lynch to consider strategic opportunities
3	29 August 2013	Announcement of FY13 results
4	25 February 2014	Announcement of FY14 half year results
5	16 May 2014	Announcement of the proposed Scheme

Source: ASX website

The table below summarises the monthly share price range, volume and liquidity in SFGA Shares on the ASX over the 12 months prior to the announcement of the Scheme.

SFGA share price and volume history

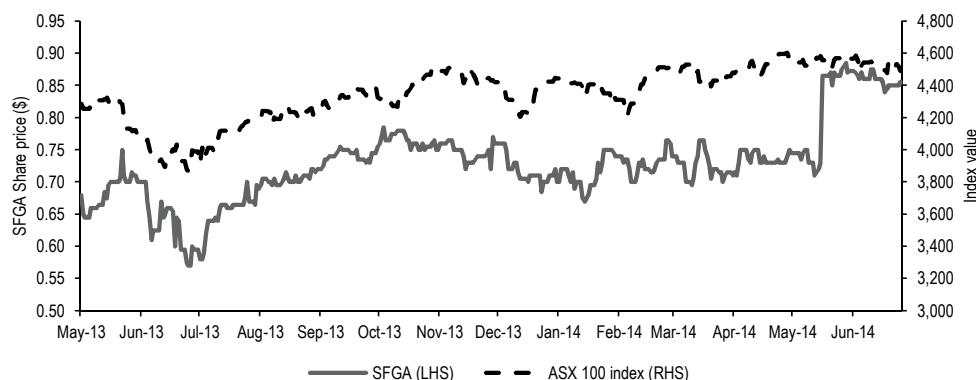
\$ per share	High	Low	Close	Monthly volume traded (million shares)	Monthly volume traded as a % of total shares on issue
May 2013	0.75	0.65	0.70	11.97	1.6%
June 2013	0.70	0.57	0.60	4.09	0.6%
July 2013	0.70	0.58	0.69	9.15	1.2%
August 2013	0.72	0.70	0.72	6.78	0.9%
September 2013	0.76	0.72	0.76	14.55	2.0%
October 2013	0.79	0.75	0.75	4.36	0.6%
November 2013	0.77	0.72	0.76	9.61	1.3%
December 2013	0.76	0.69	0.70	11.38	1.5%
January 2014	0.75	0.67	0.74	2.69	0.4%
February 2014	0.77	0.70	0.74	6.86	0.9%
March 2014	0.77	0.70	0.71	10.58	1.4%
April 2014	0.75	0.71	0.75	8.14	1.1%
Up to 15 May 2014	0.75	0.71	0.73	8.48	1.2%

Source: CapitalIQ



Over the past twelve months, approximately 1% of the shares in SFGA were traded in each month, which indicates low levels of liquidity.

The chart below outlines SFGA's closing share price relative to the S&P ASX 100 index for the period from 1 May 2013 through to 25 June 2014.



SFGA's Share price has generally moved in line with the market over the period analysed above.

- ▶ From 1 May 2013 through to 15 May 2014, being one day prior to the announcement of the proposed Scheme, the ASX All Ordinaries and S&P ASX 100 indices increased by 6.7% and 6.9%, respectively. Over the same period, SFGA's share price increased by 7.4%.
- ▶ SFGA's closing share price increased by 18.5% one day following the announcement of the proposed Scheme.

3.7 Trading volume

Our analysis of the movements in SFGA's Share price and trading volumes indicates that its shares are relatively illiquid. Our analysis is supported by the following:

- ▶ SFGA's free float is approximately 77.3%³⁴. The three largest shareholders, excluding the call options held by IOOF, and treating Kevin Bailey and his associates as one shareholding, own 15.7% of the issued share capital.
- ▶ The average weekly volume over the twelve months prior to the announcement of the proposed Scheme on 15 May 2014 represented only 0.5% of shares on issue as at 15 May 2014, or annual turnover of around 13.8% of total issued capital.
- ▶ SFGA is neither a member of the ASX 100 nor ASX 200 and as such, many funds are not required to or may be restricted from holding its stock.

³⁴ Excludes company employees/ individual insider holdings as per CapitalIQ



4. Overview of IOOF

4.1 Company overview

IOOF is one of Australia's largest wealth management companies, offering a wide range of products and services. The group was established in Victoria in 1846 as *The Independent Order of Odd Fellows* friendly society. IOOF demutualised in 2002, and listed on the ASX in December 2003.

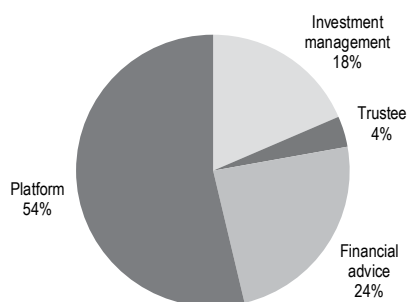
As at 31 March 2014, IOOF managed and administered funds of approximately \$123.9 billion on behalf of its clients. IOOF has grown through acquisitions in recent years, in line with its strategy to continue to grow funds under management, administration, advice and supervision (**FUMAS**).

The group is comprised of four key segments, summarised as follows:

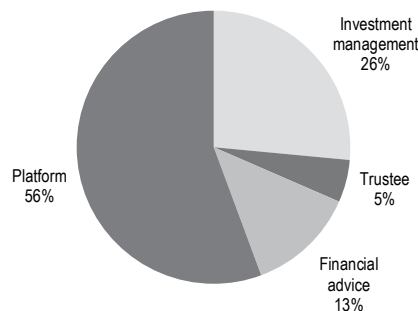
- ▶ **Financial advice and distribution** – through a network of almost 1,000 aligned advisors and associated stockbrokers, IOOF advises retail clients on investment strategies, wealth protection and accumulation, stockbroking and retirement planning. IOOF's financial advice brands include Bridges Financial Services, Lonsdale Financial Group, Wealth Managers, Ord Minnett, Consultum Financial Advisers, My Adviser and Plan B Wealth Management.
- ▶ **Platform management and administration** – IOOF has four key web-based investment platforms allowing clients, employers and advisers to manage superannuation and investment products including managed funds and shares. The flagship platforms include IOOF Pursuit, IOOF Employer Super (formerly Spectrum Super) and The Portfolio Service.
- ▶ **Investment management products** – IOOF offers a range of investment products including multi-manager funds, equities and cash. This division is comprised of the Perennial Investment Partners brand, as well as IOOF MultiMix, IOOF WealthBuilder and IOOF QuantPlus.
- ▶ **Trustee services** – IOOF, through Australian Executor Trustees, provides estate planning, personal and corporate trust services, including assisting clients with wills and trusts.

The contributions of each segment to revenue and net after tax profit adjusted for amortisation expenses and non-recurring items (referred to as Underlying NPAT) for 1HY14A is set out in the charts below.

Split of revenue for 1HY14A



Split of Underlying NPAT for 1HY14A



Source: Half year 31 December 2013 results presentation

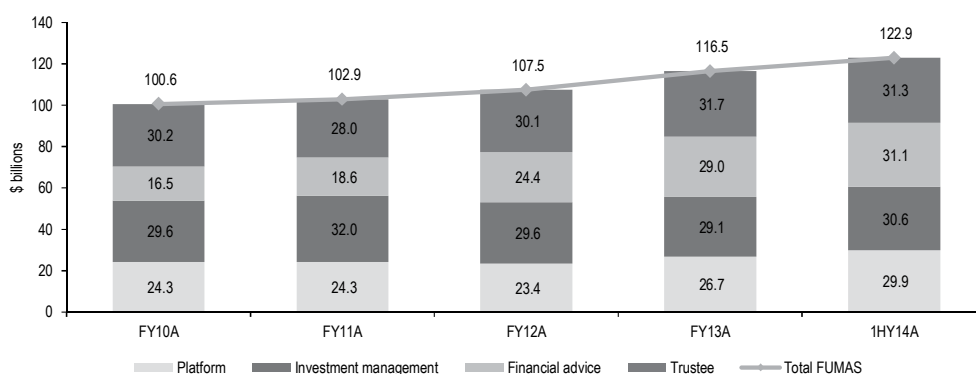
The margins achieved vary by segment. The platform segment is the largest contributor both in terms of revenue and Underlying NPAT.



4.2 FUMAS

The chart below shows IOOF's average FUMAS for each of the reporting periods from FY10 to 1HY14A, split by segment.

Average FUMAS between FY10A and 1HY14A



Source: Annual and 31 December 2013 interim results presentations

We note the following in relation to IOOF's FUMAS:

- ▶ IOOF's FUMAS has grown by \$24.9 billion, from \$99.1 billion at 30 June 2010 to \$124.0 billion at 31 December 2013, representing a compound annual growth rate (**CAGR**) of 6.6%. Of this, approximately \$10.3 billion of FUMAS resulted from acquisitions, and \$17.1 billion through favourable market movements. This growth has been partially offset by \$4.1 billion of net funds outflows over this period.
- ▶ Much of the acquisition-related growth in FUMAS relates to the financial advice segment. Average funds under advice have increased by 88% from \$16.5 billion in FY10A to \$31.1 billion in 1HY14A. The key acquisitions which have contributed to this increase include:
 - ▶ Plan B, a wealth manager based in Western Australia, which was acquired in September 2012 and added FUMAS of \$3.2 billion at inception.
 - ▶ DKN, a financial planning network, which was acquired in October 2011 and added FUMAS of \$6.8 billion.
- ▶ Average FUMAS relating to Platforms has grown at a CAGR of approximately 6% per annum between FY10A and 1HY14A. In contrast, average FUMAS relating to the Investment management segment has grown at a relatively modest 1% per annum in the same period.
- ▶ Outflows in funds have been concentrated in the Investment management segment, and occurred mainly during FY12A and the first half of FY13A. Total Investment management funds outflows amounted to \$7.6 billion in FY13A. We understand that the funds outflows largely are in respect of the Perennial Investment Partners business. Net funds flows were positive during 1HY14A.
- ▶ Market movements contributed to \$5.5 billion of FUMAS growth in 1HY14A. IOOF's FUMAS is somewhat correlated to market movements due to the allocation of FUMAS between asset categories. As at 31 December 2013, the largest allocation was to Australian equities (44%), followed by fixed interest and cash (39%), international equities (11%), property (5%) and other (2%). This asset allocation has remained broadly consistent since FY12A, with a slight shift of funds out of fixed interest and into Australian equities.



4.3 Financial performance

The table below summarises IOOF's consolidated financial performance for the three years ended 30 June 2013, and for the half year ended 31 December 2013.

<i>Currency: \$ millions</i>	FY11A	FY12A	FY13A	1HY14A²
Revenue	642.6	624.8	685.7	368.3
Expenses	(512.8)	(523.0)	(579.2)	(300.0)
Life statutory revenue ¹	85.3	52.5	84.7	45.7
Life statutory expenses ¹	(71.6)	(55.8)	(65.1)	(31.1)
Share of profit of associates	9.2	8.2	7.7	3.7
Finance costs	(0.8)	(2.6)	(4.0)	(1.7)
Profit before tax	151.9	104.1	129.8	84.9
Income tax (expense)/benefit - shareholder	(37.5)	(87.7)	(29.8)	(21.2)
Income tax (expense)/benefit – statutory ¹	(13.6)	3.3	(19.6)	(14.6)
Profit for the period	100.8	19.7	80.4	49.1
Other comprehensive income	(6.6)	8.5	2.0	4.0
Total comprehensive income	94.2	28.2	82.4	53.1
For information only				
Average FUMA (\$ billions)	74.9	77.3	84.8	91.6
Closing FUMAS (\$ billions)	30.2	107.3	120.2	124.0
Underlying NPAT	111.5	96.4	108.8	58.0
Cost to income ratio	51.0%	58.7%	58.7%	57.9%

Source: IOOF Annual reports, IOOF interim financial statements

Note 1: A subsidiary of IOOF is a friendly society in accordance with the Life Insurance Act 1995. Funds associated with this subsidiary are treated as statutory funds and are required to be consolidated and shown separately from shareholders' funds in the financial statements

Note 2: 1HY14A results have been extracted from IOOF's reviewed financial statements for the relevant period

In relation to the table above, we note:

- ▶ Revenue grew at 3% CAGR between FY11A and FY13A. This is lower than the rate of growth in FUMA, reflecting a decline in fees. This decline was particularly evident in the Platforms segment, due to a higher proportion of products with lower fees, and a higher proportion of fund members benefiting from a tiered fee structure. We note that revenue as a percentage of FUMA has increased from 0.58% in FY13A to 0.61% in 1HY14A. Industry observers have highlighted margin constraints as a key challenge for IOOF. However, the 30 June 2013 annual report notes that IOOF has the opportunity to leverage a cost base which is largely fixed relative to FUMAS.
- ▶ Revenue is largely comprised of external management and service fee revenue totalling \$582.9 million in FY13A. Stockbroking revenue is the second largest component of revenue, contributing \$64.4 million in FY13A, with other external fee revenue making up the remainder of \$27.6 million. Fee revenue is the largest revenue driver for all segments. Stockbroking revenue increased approximately 14% in FY13A, due to higher trading volumes on the ASX, and a number of hybrid note and bond issuances by large Australian corporates.
- ▶ Between FY11A and FY13A, expenses grew by 6% CAGR. This increase can be largely attributed to IOOF's growth through acquisitions. IOOF has achieved significant cost synergies in both of its most recent acquisitions, of DKN and Plan B. IOOF's key expense items are service and marketing fees expenses, totalling \$246.0 million in FY13A and employee expenses of \$144.7 million. Employee related expenses and share based payments increased by 15% in FY13A, due to growth in the number of employees as well as additional remuneration programs designed to improve retention.
- ▶ As explained in the note to the table, statutory revenue and expense relating to IOOF's friendly society subsidiary is shown separately in the financial statements. We note that in each year, the net statutory contribution is nil (i.e. life statutory revenue less expenses and tax).



- Underlying NPAT, which is calculated based on reported net profit, adjusted for amortisation expenses and non-recurring items, is the key earnings number presented by IOOF in its investor presentations. The adjustments made to calculate Underlying NPAT for IOOF are set out in Appendix E – *IOOF Underlying NPAT reconciliation* of this report.
- Underlying NPAT increased from \$96.4 million in FY12A to \$108.8 million in FY13A. Underlying NPAT of \$58.0 million in 1HY14A is 14% higher than the previous corresponding period. This result was approximately 5% lower than half year earnings expectations of equities analysts³⁵.
- IOOF does not issue formal earnings guidance. We note that, based on recent equity analysts' reports³⁶, the average forecast for IOOF's Underlying NPAT in FY14 is approximately 12% higher than FY13A (before any impact of the proposed Scheme).

4.4 Financial position

The table below shows the financial position of IOOF as at 30 June 2013 and 31 December 2013:

<i>Currency: \$ millions</i>	Jun13A	Dec13A¹
Cash and cash equivalents	98.3	82.5
Receivables	69.7	78.0
Other financial assets	27.2	58.7
Other assets	23.3	19.8
Equity-accounted investees	27.8	26.9
Property and equipment	11.6	10.5
Other intangible assets	304.0	294.0
Goodwill	578.1	578.1
Assets relating to statutory funds	807.1	857.3
Total assets	1,947.1	2,005.8
Payables	57.1	54.5
Borrowings	106.6	111.3
Current tax liabilities	11.8	18.7
Other financial liabilities	30.3	28.3
Provisions	48.1	43.4
Deferred tax liabilities	58.3	60.8
Other liabilities	11.2	9.8
Liabilities relating to statutory funds	807.1	857.3
Total liabilities	1,130.6	1,184.0
Net assets	816.6	821.8
Share capital	862.3	867.3
Reserves	(6.1)	(2.2)
Accumulated losses	(52.1)	(56.1)
Minority interest	12.5	12.8
Total equity	816.6	821.8

Source: IOOF interim financial statements

Note 1: The Dec13A balance sheet position has been extracted from IOOF's reviewed financial statements for the relevant period

In relation to the financial position of IOOF presented above, we note:

- Cash and cash equivalents of \$82.5 million as at 31 December 2013 are highly liquid and represent bank balances and investments held by the group.
- Receivables of \$78.0 million include trade receivables of \$47.3 million, a security bond of \$5.4 million and accrued income of \$24.8 million.

³⁵ Analyst earnings expectations are based on EY's research into analyst reports. We had access to reports authored by eight analysts which included a comparison of the actual 1HY14A result with their expectations

³⁶ We have had access to reports authored by ten analysts which included expectations for IOOF's FY14 Underlying NPAT



- ▶ Over the six months to 31 December 2013, IOOF's other financial assets increased by \$31.4 million. This included an investment in Equity Trustees of approximately \$19.7 million which was undertaken in late December 2013, but was subsequently sold in April 2014. In addition, between 30 June 2013 and 31 December 2013, IOOF increased its holdings of unlisted unit trusts by approximately \$4.9 million.
- ▶ Other assets of \$19.8 million are comprised of prepayments of \$12.8 million and deferred acquisition costs of \$7.1 million.
- ▶ Equity-accounted investees of \$26.9 million relates to IOOF's investment in a number of companies. The largest of these investments is a 52.4% interest in Perennial Value Management recorded at \$9.1 million³⁷ as at 30 June 2013. Due to the voting rights associated with the shares held by IOOF, this interest does not constitute a controlling interest for the purposes of consolidation. IOOF has stakes of between 20% and 41% in its other equity-accounted investees.
- ▶ IOOF had net assets of \$821.8 million as at 31 December 2013. This balance is driven largely by goodwill and intangible assets of \$872.1 million, recognised as a result of acquisitions undertaken by IOOF. The largest amortisable intangible asset is customer relationships, of \$253.5 million, which is amortised over 10 to 20 years. The large contribution of intangible assets means that IOOF had net tangible liabilities of \$50.3 million as at 31 December 2013.
- ▶ Assets and liabilities relating to statutory funds relate to members of those funds, rather than the shareholders of IOOF. These assets and liabilities are presented on the balance sheet, however we note the net asset impact is nil.
- ▶ Borrowings of \$111.3 million relate primarily to a cash advance and working capital facility. During FY13, IOOF drew down \$50 million of this facility for the purposes of acquiring Plan B.
- ▶ Provisions of \$43.4 million predominantly relate to employee entitlements. There is a \$2.1 million provision for an onerous contract.
- ▶ Net deferred tax liabilities of \$60.8 million are due to temporary differences. The largest temporary difference relates to customer relationship intangible assets.

4.5 Capital structure

Based on its financial statements, IOOF has on issue the following securities:

- ▶ 232,118,034 ordinary shares as at 31 December 2013. These include the treasury shares held by the IOOF Executive Performance Share Plan Trust³⁸. As of 20 September 2013, the ordinary shares were held by 55,417 holders. Based on the FY13 annual report, and subsequent notices lodged with the ASX, IOOF has only one substantial shareholder, as follows:

Name of shareholder	No. of shares	% of shares held
The Trust Company (Australia) Limited (account of Mr Bruce W Neill)	27,834,878	12.11%
Total shares on issue	232,118,034	100.00%

Source: Management, various change of substantial shareholder in IOOF notices, Morningstar DatAnalysis

- ▶ 2,851,180 employee share options as at 30 June 2013, with a weighted average exercise price of \$6.45 per share.
- ▶ 2,624,278 performance rights and 27,874 deferred shares as at 30 June 2013. The performance rights and deferred shares have been issued to management and other key stakeholders in various

³⁷ Perennial Value Management Limited is an associated entity of IOOF; Perennial Investment Partners Limited holds a 52.4% interest in this entity. Refer to page 90 of IOOF's 2013 annual report

³⁸ Treasury shares are entitled to dividends and voting rights



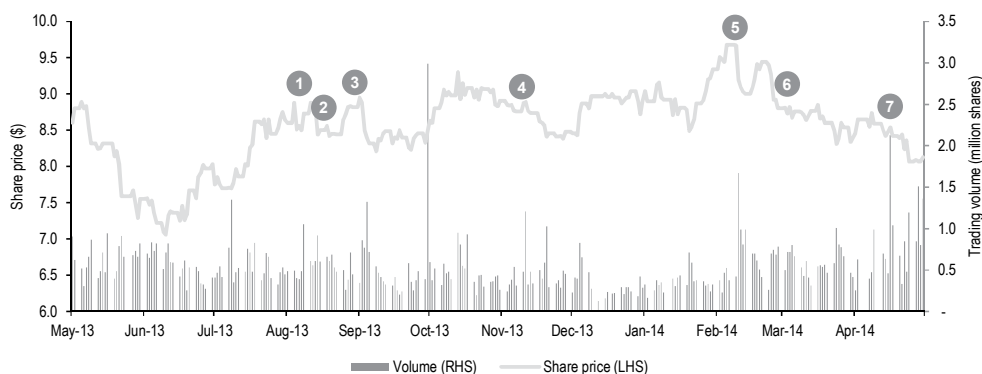
tranches, each with different vesting periods and conditions. The latest vesting period ends on 1 July 2017.

- 117,000 treasury shares as at 31 December 2013, which are shares held by the IOOF Executive Performance Share Plan Trust.

4.6 IOOF share price performance

The following graph depicts the daily share price and trading volumes for IOOF shares for the period from 1 May 2013 to 15 May 2014 (being the day prior to the announcement of the Scheme). During this period, IOOF's share price ranged from a low of \$7.06 per share in June 2013 to a high of \$9.68 per share on 24 February 2014, the day immediately prior to the interim results announcement. The share price on 15 May 2014, being the day before the announcement of the Scheme, was \$8.13 per share.

IOOF share price and volume history



Source: CapitalIQ

Announcements made by IOOF over the above period that may have had an impact on IOOF's share price and/or the volume traded of IOOF shares are summarised below. All of the below announcements are available in full on IOOF's website.

Ref	Announcement date	Details
1	23 August 2013	Full year results announcement, including dividend of \$0.225 per share. The interim dividend was 14% higher than the prior year
2	2 September 2013	IOOF submitted a proposal to acquire The Trust Company. At the time of announcement, The Trust Company was subject to an offer from another party, Perpetual Limited
3	19 September 2013	IOOF and Perpetual enter into a share sale agreement as a result of which IOOF acquired a strategic holding in Equity Trustees (approximately 12% of the shares in Equity Trustees). This transaction was settled on 20 December 2013
4	25 November 2013	IOOF annual general meeting
5	25 February 2014	Release of interim results and half year results presentation. The announced earnings were slightly below market expectations with the share price declining by 4.9%. IOOF announced an interim dividend of \$0.225 per share
6	12 March 2014	Ex-dividend date
7	2 May 2014	IOOF was added to the ASX 100 index, resulting in high volume of shares traded

Source: ASX website



The table below summarises the monthly share price range, volume and liquidity in IOOF shares on the ASX over the 12 months prior to the announcement of the Scheme.

IOOF share price and volume history

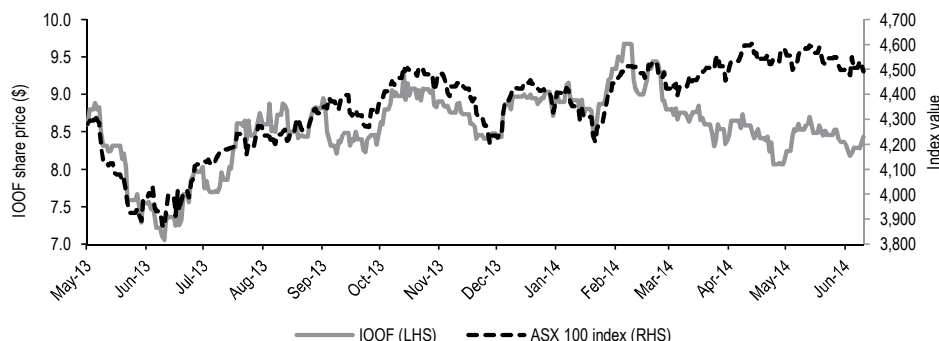
<i>\$ per share</i>	High	Low	Close	Monthly volume traded (million shares)	Monthly volume traded as a % of total shares on issue
May 2013	8.97	8.24	8.32	13.65	5.9%
June 2013	8.32	7.06	7.36	13.10	5.6%
July 2013	8.26	7.25	8.26	11.93	5.1%
August 2013	8.88	8.30	8.50	12.28	5.3%
September 2013	8.95	8.21	8.32	11.69	5.1%
October 2013	9.30	8.23	8.99	13.08	5.7%
November 2013	9.08	8.74	8.74	9.12	3.9%
December 2013	9.00	8.38	8.96	8.52	3.7%
January 2014	9.16	8.71	8.81	6.22	2.7%
February 2014	9.68	8.49	9.00	10.77	4.7%
March 2014	9.44	8.64	8.85	12.32	5.3%
April 2014	8.74	8.31	8.48	11.37	4.9%
Up to 15 May 2014	8.54	8.07	8.13	11.21	4.8%

Source: CapitalIQ

Over the past 12 months, approximately 5% of IOOF's shares on issue were traded in each month.

The chart below outlines IOOF's closing share price relative to the ASX 100 index for the period from 16 May 2013 through to 25 June 2014.

IOOF share price and ASX 100 index movement since 16 May 2013



Source: CapitalIQ

IOOF's share price has underperformed the market over the period analysed above. From 16 May 2013 through to 15 May 2014, being one day prior to the announcement of the proposed Scheme, the ASX 100 index increased by 7.0%. Over the same period, IOOF's share price decreased by 5.5%.

IOOF's closing share price increased by 1.5% one day following the announcement of the proposed Scheme. Since that date, IOOF's share price increased, to a maximum of \$8.70 per share on 28 May 2014. IOOF's share price has generally trended downwards since 28 May 2014, to a closing price of \$8.44 per share on 25 June 2014. IOOF's 10 day VWAP as at 25 June 2014 was \$8.30 per share.



4.7 Trading volume

Our analysis of the movements in IOOF's share price and trading volumes indicates that its shares are relatively liquid. Our analysis is supported by the following:

- ▶ IOOF's free float is approximately 83.5%. The substantial shareholder presented earlier owns 18% of the issued share capital.
- ▶ The average monthly volume of shares traded is around 5% per month, implying annual turnover of around 60% of total issued capital.
- ▶ IOOF is a member of the ASX 100 and as such certain funds, particularly index tracker funds, will be required to hold its stock.
- ▶ Further details on the liquidity of IOOF shares are presented in section 8 of this report.



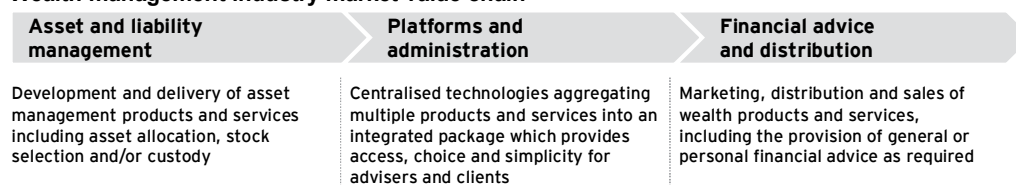
5. Overview of the financial planning and investment advice industry

SFGA, though it provides a broad product and service offering, generates the majority of its revenues from activities within the Australian financial planning and investment advice industry (**Industry**), itself a segment of the broader wealth management industry. The wealth management industry incorporates a value chain that extends from asset management through to the provision of financial advice and delivery of products and services for a range of clients.

Financial planning and investment advice industry participants are involved in the provision of financial advice regarding loans and investments, self-managed superannuation funds, retirement, superannuation and tax advice. However, as a result of industry consolidation and competitive pressures, industry participants may offer a more integrated solution that includes other elements of the end to end wealth management value chain. SFGA predominantly provides financial advice as well as platform and administrative products and services.

A graphical depiction of the wider wealth management industry is set out below.

Wealth management industry market value chain



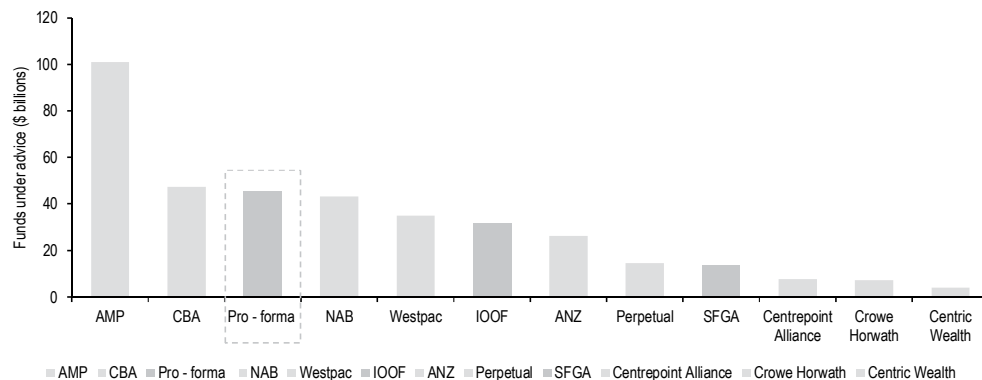
Given the aging Australian population and an expectation that the preservation age i.e., the age from which one can draw upon their superannuation savings, will rise following the Federal Government's May 2014 budget, this Industry is expected to continue to grow as Australians seek to make financially astute decisions to support their future. Together with the evolving regulatory landscape and the increasing importance of utilising the most up to date technology, this will shape the future of the Industry and the broader wealth management sector in Australia. The below summarises the key trends and factors influencing the performance of this industry.

5.1 Industry performance

Though the initial impacts of the global financial crisis (**GFC**) in late 2008 have to some extent waned, the repercussions continue to be felt in this industry, with household income growth having slowed significantly and consumer sentiment remaining cautious. Added to this has been ongoing regulatory reform, which though aimed at enhancing transparency and ensuring advice provided is in the best interests of the client, has also led to increased compliance costs and supported continued consolidation of the industry. The key market players and the pro-forma position of the combined IOOF and SFGA are set out over the page.



Industry participants by funds under advice



Source: "SFG Australia and IOOF enter into Scheme Implementation Agreement", ASX investor presentation, 16 May 2014

The key drivers of performance in this sector are described below:

► External factors

- The quantum of high income earners which impacts the demand for the products and services offered by this industry. The number of high income earners is influenced by many factors including real household disposable income levels and wage growth
- The quantum of the population that is aged 50 years and over given this is generally the primary target market for this industry
- General economic conditions which impact equity markets, consumer sentiment and certain of the above listed factors such as wage growth and disposable income
- Industry regulation which can drive compliance requirements as well as influence the growth of the sector. For example, the complex superannuation regime in Australia drives the need for specialised products and services such as wealth management platforms, self-managed superannuation funds and related advice regarding how best to safeguard and grow both compulsory and voluntary contributions. Industry regulation is ultimately a large driver of FUMA in Australia
- In part, both external and internal factors have led to ongoing margin compression in the sector which continues to drive industry consolidation as players seek to achieve scale benefits to remain competitive

► Internal factors

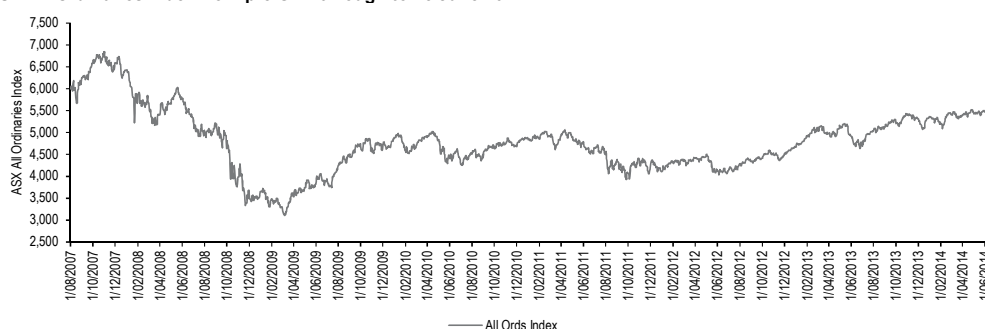
- Industry participants providing financial advice must hold the appropriate licences and comply with all regulatory requirements e.g., must hold an AFSL and comply with Future of Financial Advice (**FoFA**) reforms among others
- Successful industry participants require up to date knowledge of the products and services they provide and access to market research regarding investments and trends
- Building and retaining a loyal customer base
- Generation and maintenance of a strong reputation, supported by a track record of delivering positive returns to clients and superior performance versus the market



- Access to a qualified workforce and the related operating structure can influence performance. This may include vertically integrated dealer groups with the larger Australian banks or independently owned non-aligned financial advisor groups. Vertically integrated groups enable advisors access to a larger institution which can provide support, marketing services, advice tools, training, research and other technical assistance. Non-aligned groups are distinct from product manufacturers and often have larger approved product lists enabling a wider choice of products and services. SFGA represents a non-aligned financial group while IOOF has aligned advisors in a vertically integrated business model.

Over the five years to June 2014, IBISWorld estimates that industry revenue grew at a real compound annual growth rate (**CAGR**) of 2.5%. Predominantly this reflects significant declines over the period 2008 through to 2010 given the weak global environment over this time and is consistent with the movements in the ASX All Ordinaries Index, a benchmark for movements in equity markets in Australia, as shown below.

ASX All Ordinaries Index from pre GFC through to 25 June 2014



Source: CapitalIQ

This is in contrast to the longer term trends for this sector which prior to the global financial crisis had been underpinned by a typical industry benchmark of 6% real growth per year.

5.2 Regulatory framework

The industry is regulated by various bodies, including the Australian Prudential Regulation Authority (**APRA**), and the Australian Securities and Investments Commission (**ASIC**), under the Superannuation Industry (Supervision) Act 1993. Financial advisers must hold an AFSL or be an authorised representative of an AFSL holder, complying with the regulatory requirements set out in the Corporations Act, 2001. The industry has gone through substantial regulatory reform in the recent past and continues to face uncertainty regarding further change as is described in more detail below.

In response to the concerns of investors following substantial financial losses³⁹ incurred by retail investors, the Parliamentary Joint Committee on Corporations and Financial Services' inquiry (**Ripoll Inquiry**) was launched in February 2009 to investigate the role of advisers, conflicts of interest, remuneration structures, licensing and various other aspects regarding the provision of appropriate investment advice. As a result of the recommendations published subsequent to the Ripoll Inquiry and a lengthy consultation process, the Federal Government proposed the FoFA reforms which were enacted as law on 1 July 2012. From 1 July 2013, financial planners were required to be compliant with the FoFA reforms. The key reforms implemented included:

- Financial planners could no longer be paid a commission by product providers
- Financial planners must provide advice in the best interests of each client
- An opt-in requirement every 2 years for clients to confirm their agreement to ongoing advice fees

³⁹ Including Opes Prime, Westpoint, Great Southern, Timbercorp and Storm Financial



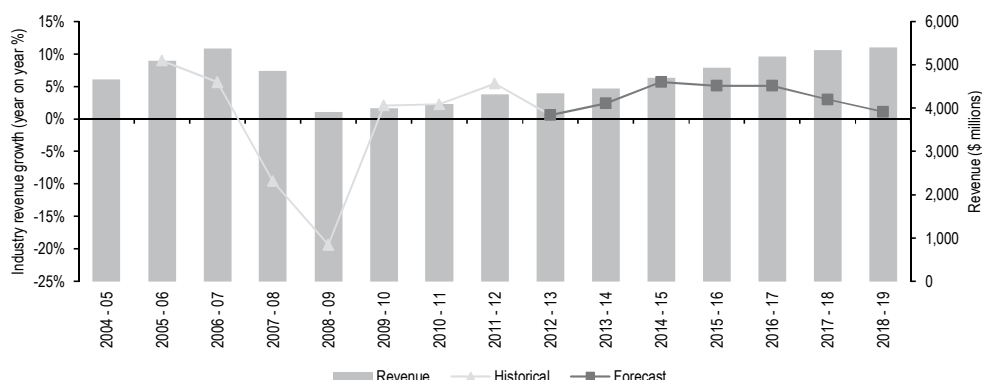
- ▶ Prospective bans on volume or sales target based payments
- ▶ A prospective ban on upfront and trailing commissions for individual and group risk within superannuation

Following the change in government in September 2013, the Coalition Government announced its intended amendments in December 2013 regarding certain elements of the FoFA reforms in line with its pre-election statements. In January 2014⁴⁰, an Exposure Draft was released which, while the essence of the reforms was to be retained, the proposed amendments sought to reduce the time and costs necessary to ensure compliance associated with FoFA regulation. The proposed amendments included the removal of the opt-in requirement and best interests duty, adjustments to certain remuneration provisions and changes to the delivery of scaled advice among others⁴¹. The Corporations Amendment (Streamlining of Future of Financial advice) Bill 2014 was tabled in Parliament on 19 March 2014⁴². The legislation has been referred to the Senate Economic Committee for further consultation with industry⁴³. The Senate Economic Committee issued its report on 16 June 2014. The Coalition Government subsequently released its response stating that it intends to implement its proposed changes with some minor amendments, focusing initially on those amendments it views as more time sensitive. However, the timing, success and ultimate impact of any implemented amendments is generally regarded as highly uncertain.

5.3 Industry outlook

The chart below shows historical revenue and forecast revenue for the industry.

Financial planning and investment advice in Australia industry revenue performance



Source: IBISWorld Financial planning and investment advice in Australia industry report, April 2014

While the Industry has been impacted by poor economic conditions, revenues have shown a rising trend since the lows of FY09. However, industry revenues and growth prospects still remain below the levels experienced prior to the GFC. Over the five year period to FY19, industry revenue is forecast by IBISWorld to grow at a CAGR of 2.8% (simple average of 4% as shown in the earlier chart⁴⁴ with industry revenue to reach pre GFC levels by FY18. IBISWorld projects that over this same period, profit will improve by an average 9% in aggregate. The performance of the industry over the coming years may be underpinned by:

⁴⁰ "Future of financial advice amendments released for public consultation", 29 January 2014 released by the Assistance Treasurer, Senator the Hon Arthur Sinodinos AO

⁴¹ Financial Planning Association of Australia, Submission regarding the Exposure draft – FoFA Amendments dated 19 February 2014

⁴² Corporations amendment (Streamlining of Future of Financial Advice) Bill 2014, Explanatory Memorandum, circulated by the authority of the Treasurer, the Hon J.B. Hockey MP in the House of Representatives

⁴³ "Confirming our commitment to FoFA reforms", media release dated 24 March 2014, Senator the Hon Mathias Cormann

⁴⁴ IBISWorld Financial planning and investment advice in Australia industry report, April 2014



- ▶ Increasing competitive tension in the sector to attract and retain clients and their funds
- ▶ Regulatory reform including the requirement for employers to contribute superannuation into a MySuper fund as the default fund. These products became available from 1 July 2013 and by 2017, all existing default employees are required to be transferred to MySuper products
- ▶ Continued industry consolidation leading to greater scale efficiencies and more integrated wealth management solutions
- ▶ The ease with which clients are able to move between investment options
- ▶ Innovative product and service offerings alongside technological advances in the provision and accessibility of such offerings
- ▶ The movement of funds towards more cost effective service models such as platform and wrap products.

There remains risk regarding the outlook and accordingly, the future growth of this industry may be limited by continued volatility in markets globally as well as the high degree of uncertainty around the regulatory landscape. This is particularly pertinent given the possible legislative changes to the existing reforms announced by the Federal Government which intends to “roll-back” certain FoFA reforms as referred to earlier⁴⁵.

Despite the above factors, general consensus is that with a large proportion of the Australian population reaching retirement age and the need for the current and future workforce to support themselves through retirement, there will be demand for the products and services provided by this industry. This should be further supported by the changes announced in the May 2014 Budget by the Federal Government to re-phase the increase in compulsory employer contributions to 12% by July 2022 (previously to be by July 2019) from the current 9.25%⁴⁶ and a recent rally of equity markets suggesting a strengthening economic environment.

⁴⁵ Corporations Amendment (Streamlining of Future of Financial Advice) Bill, parliamentary review March 2014

⁴⁶ The Federal Government announced that subsequent to the 1 July 2014 increase in the compulsory contribution from 9.25% to 9.5%, there will be no further increases until 1 July 2018 at which point the contribution will increase by increments of 0.5% each financial year until the rate reaches 12.0% on 1 July 2022.



6. Valuation approach

6.1 Valuation methodology and approach

A number of valuation approaches may be applied in determining the fair market value of an investment or business, with the appropriate approach dependent upon the specific circumstances. Details of the various accepted approaches are outlined in Appendix C – *Valuation approaches*, and typically comprise the income, market and cost approaches.

Having regard to the nature of SFGA's business and the available information, we have applied the market approach and specifically the capitalised earnings method as our primary methodology. We have adopted this approach for the following reasons:

- ▶ SFGA's business is established, with a track record of profitability in a mature market.
- ▶ Information is available in respect of broadly comparable companies. We recognise that there are few truly comparable companies as many financial planning business form part of a larger, diversified group. However, there are quoted companies that operate in the same sector, and recent transactions of financial planning businesses, such that trading and transaction multiples are able to be drawn from the market to be applied to an assessment of SFGA's earnings.
- ▶ No longer term projections are available to enable us to apply the income approach, nor are long term forecasts typically prepared by companies in this industry.

The capitalised earnings methodology requires an assessment of the following:

- ▶ The earnings stream that may be considered representative for the business. In this respect we have adopted Underlying NPAT as the appropriate earnings basis for our analysis. Underlying NPAT reflects the reported NPAT, as adjusted to exclude intangible amortisation expenses and any one-off or non-recurring items of revenue or expense. This is considered appropriate as:
 - ▶ Businesses in this industry do not typically have high depreciation, and therefore the impact of differing depreciation policies is not likely to be material. Similarly, most businesses have low, or nil, net debt and are therefore less impacted by varying or high levels of interest expense.
 - ▶ Amortisation expense, which is driven by intangible assets recognised in the statement of financial position, can be significantly different across companies. We note that SFGA's reported results are significantly impacted by material non-cash deductions for the amortisation of intangible assets as a result of its acquisitions.
 - ▶ Companies in this industry are typically valued using price earnings ratios, which are applied to after tax profits.

Our selected Underlying NPAT is based on historical earnings trends and has regard to recent analyst forecasts.

- ▶ An appropriate earnings multiple to apply to the Underlying NPAT, having regard to comparable listed companies, relevant comparable transactions, growth prospects and other factors specific to SFGA.
- ▶ Any other assets, liabilities and contingent liabilities that are not reflected in the value determined by the capitalisation of Underlying NPAT.



In applying this methodology we considered the fair market value of one share in SFGA on a controlling interest basis. Our assessment of the appropriate control premium is discussed further in section 7.2.3 of this report.

We then cross checked our value range to the historical share price of SFGA Shares prior to the announcement of the Scheme, as adjusted for a control premium. We also cross checked our range of fair market values based on the percentage of FUMA⁴⁷ of SFGA compared to the FUMA percentages of the quoted comparable companies.

In assessing the fair market value of the Scheme Consideration, we applied a market based approach relying on the observed share prices of IOOF's shares prior to the announcement of the Scheme having formed the view that the IOOF shares are relatively liquid as described in section 8 of this report. To this, we add the value of SFGA on a minority interest basis. In order to arrive at the value per share we considered the likely number of IOOF shares on issue assuming the Scheme is approved and implemented, as well as considering the impact on value of a range of outcomes in respect of the Maximum Cash Consideration. We adopted this approach as IOOF shares need to be valued on a minority basis which is the basis upon which they trade on the ASX.

We also considered the reasonableness of the price earnings (PE) and FUM multiples implied by the observed market capitalisation of IOOF. As a further cross check of the value of the Combined Group, we considered the value per IOOF share based on the pro forma Underlying NPAT of the Combined Group.

6.2 Control premium

In valuing an SFGA Share, we have assumed 100% of the shares are available for sale and we have therefore incorporated a premium for control. This is consistent with the requirements of RG 111.

In assessing the fair market value of the IOOF shares which form part of the Scheme Consideration, we have considered the fair market value of those shares on a minority basis.

The above approaches reflect the facts that:

- ▶ IOOF is obtaining control of SFGA
- ▶ SFGA Shareholders are receiving a minority interest in IOOF.

SFGA Shareholders will be unable to realise a control premium above this minority interest value for IOOF shares unless IOOF is itself the subject of a takeover or is subject to a similar form of transaction at some time in the future.

⁴⁷ These are calculated as equity value divided by FUMA for SFGA and the quoted companies



7. Valuation of SFGA

As discussed in section 6 of this report, our fair market valuation of one SFGA Share has been conducted on a controlling interest basis using the capitalisation of earnings methodology. As SFGA's current operations reflect a largely integrated end to end wealth management offering subject to the same market and regulatory influences, we have considered the earnings of the business in aggregate. When considering the value of one SFGA Share, we have performed the following:

- ▶ An assessment of the future maintainable earnings for SFGA on an Underlying NPAT basis
- ▶ An assessment of an appropriate PE multiple to apply to the future maintainable earnings assessed in order to derive an equity value for the business of SFGA on a control basis
- ▶ Considered any surplus assets or other adjustments to arrive at the equity value
- ▶ Calculated the total number of SFGA Shares outstanding to arrive at a fair market value per SFGA Share on a controlling interest basis. This includes taking into account the performance rights which will be converted to ordinary shares in SFGA if the Scheme is approved and implemented as described in section 3.5 of this report
- ▶ Considered the reasonableness of our value range by comparing the value per SFGA Share to the share price of SFGA Shares post the announcement of the Scheme. We also cross checked our range of fair market values based on the percentage of FUMA of SFGA compared to the FUMA percentages of the quoted comparable companies.

Under the proposed Scheme, if approved and the current timetable for the implementation is met, SFGA Shareholders will be entitled to receive the IOOF FY14 dividend given the record date will be subsequent to the implementation of the Scheme. In the event that the Scheme is approved but the current timetable is delayed, SFGA Directors have the ability (and would in those circumstances intend) to, at their discretion, declare and pay the FY14 SFGA dividend in conjunction with a special dividend such that in aggregate, SFGA Shareholders would therefore receive the equivalent amount as they would have if they had received the IOOF FY14 dividend⁴⁸. For the purposes of our valuation analysis, we have assumed that the current timetable will be met as anticipated in the Explanatory Memorandum.

7.1 Future maintainable earnings

The table below summarises the Underlying NPAT of SFGA as presented in Appendix D – SFGA *Underlying NPAT reconciliation* of this report for the financial years ended 30 June 2011 to 2013 and the six months to 31 December 2013.

<i>Currency: \$ millions</i>	FY11A ¹	FY12A	FY13A	1HY14A	LTM to 31 Dec 2013	Consensus estimates FY14 ²
FUMA	25.1	24.5	28.3	30.2	n/a	n/a
Underlying NPAT	26.9	28.6	32.5	19.2	36.2	38.1
Adjustments for amortisation and non-recurring items	(1.5)	(17.3)	(8.4)	(2.0)	n/a	n/a
Reported NPAT	25.4	11.3	24.1	17.2	n/a	n/a

Source: FY12A, FY13A and 1HY14A SFGA investor presentation results released 30 August 2012, analyst reports

Note 1: FY11A reflects pro forma results in respect of the merger of Shadforth Financial Group and Snowball Group Limited

Note 2: Simple average of recent analyst reports for Underlying NPAT; includes Moelis & Company, Cannacord, Goldman Sachs, Shaw Stockbroking and Stock Focus

⁴⁸ Explanatory Memorandum, Letter from the SFGA Chairman



In arriving at our estimate of maintainable Underlying NPAT, we have had regard to the following factors:

- ▶ SFGA has shown strong consistent growth in Underlying NPAT since FY11A, which is attributable to both organic and inorganic growth via acquisitions as described earlier in this report. Similarly, its FUMA has increased as a result of acquisitions, as well as an improvement in equities markets both in Australia and globally.
- ▶ The Underlying NPAT for the last twelve months (**LTM**) captures the 9 month contribution of the Lachlan Partners business, the acquisition of which was effective 1 March 2013. This acquisition, together with general equity market improvements, supports the growth of the LTM Underlying NPAT when compared to FY13A. As such, the LTM results better reflect the underlying level of earnings for the business. Any future earnings growth expected as a result of a full year contribution from Lachlan Partners is reflected in our assessment of an appropriate earnings multiple.
- ▶ SFGA is positioned in an industry that is expected to grow given the aging demographics of Australia and various regulatory regimes in place such as compulsory superannuation contributions. However, as described in section 5 of this report, the Industry faces a high degree of regulatory risk and is subject to the volatility of equity markets. SFGA's business is highly correlated to the equities markets, which given the more recent improvements in market conditions, has positively impacted on its earnings, relative to some of its peers. Any future earnings growth associated with market improvements is considered in our assessment of an appropriate earnings multiple.
- ▶ The analyst forecasts for FY14 show a wide range of anticipated Underlying NPAT results, varying from \$34.7 million through to \$41.4 million and reflecting a simple average of \$38.1 million. The simple average of these forecasts implies significant growth of in excess of 18% over FY13A performance. SFGA's results for the last twelve months indicate Underlying NPAT of \$36.2 million, being within the range of analysts' forecasts. No guidance has been provided by SFGA to the market as to expected financial results for the year ending 30 June 2014.

Based on the above factors and noting the wide range reflected in analyst consensus estimates for the remainder of FY14A, we have selected maintainable Underlying NPAT of \$36.2 million based on the LTM performance to 31 December 2013 as reported by SFGA. Future growth in earnings and the full year impact of the Lachlan Partners acquisition has then been reflected in our selection of earnings multiples.

7.2 Earnings multiples

We have capitalised the selected Underlying NPAT at a multiple that we consider reasonably reflects the business and growth prospects of SFGA. In assessing appropriate earnings multiples we considered the current trading multiples of companies that may be considered broadly comparable to SFGA. In addition, we analysed the multiples implied from recent acquisitions of companies with similar operations.

7.2.1 Trading multiples

Presented in the table on the following page are the trading multiples of the selected comparable companies. These multiples are based on the observed share prices of minority parcels of shares as at 25 June 2014 and are therefore not reflective of a premium for control. Further information on these comparable companies is provided in Appendix F – *Trading multiples and data*.



Trading multiples in the financial advice and wealth management sector

Company	Market cap (\$m)	Historic year end	FY13A margin ²	FY13A PE multiple	LTM Dec13A PE multiple	FY14F PE multiple	FY15F PE multiple	Market cap as a % of FUMAS
SFGA ¹	536	30-Jun-13	24.2%	16.5x	14.8x	13.9x	13.2x	1.8%
Equity Trustees Limited	392	30-Jun-13	22.0%	22.5x	20.5x	20.2x	18.3x	1.1%
Countplus Limited	195	30-Jun-13	14.6%	14.0x	14.1x	13.4x	12.5x	1.9%
ClearView Wealth Limited	425	30-Jun-13	15.8%	26.5x	25.6x	22.6x	20.2x	11.1%
Fiducian Portfolio Services Limited	54	30-Jun-13	16.3%	14.9x	14.2x	na	na	4.0%
Low			14.6%	14.0x	14.1x	13.4x	12.5x	1.1%
Median			16.0%	18.7x	17.4x	20.2x	18.3x	3.0%
Mean			17.2%	19.5x	18.6x	18.7x	17.0x	4.5%
High			22.0%	26.5x	25.6x	22.6x	20.2x	11.1%

Source: EY analysis and CapitalIQ

na: not available

Note: all low, median, mean and high have been shown excluding the multiples of SFGA

1: SFGA market capitalisation as at 15 May 2014, one prior to the Scheme announcement, has been used

2: Calculated as Underlying NPAT as a proportion of total revenue

As highlighted earlier, there are few truly comparable companies to SFGA with many other financial planning and wealth management companies forming part of a larger, diversified group.

7.2.2 Transaction multiples

The table below summarises the transaction multiples implied by recent transactions involving companies with operations broadly comparable to those of SFGA. Further details regarding the transactions are presented in Appendix G – *Recent transactions*.

Recent transactions in the financial advice and wealth management industry

Announcement date	Target	Acquirer	Implied 100% equity value	FUMA \$m	Purchase price as a % of FUMAS	NPAT (H)	PE (H)
Jan-14	Centric Wealth Advisers Limited	Financial Index Australia, Kohlberg Kravis Roberts & Co.	130	4,100	3.2%	na	na
Feb-13	Lachlan Partners Pty Ltd	SFGA	31	606	5.1%	na	na
Jul-12	Plan B Group Holdings	IOOF	47	2,060	2.3%	3.2	12.0x
Jul-12	ClearView Wealth Limited ¹	Crescent Capital Partners Management Pty Limited	245	2,900	8.4%	19.2	12.8x
Aug-11	Count Financial Limited	Capital 121 Pty Limited (Commonwealth Bank of Australia)	372	9,860	3.8%	25.6	14.6x
Jun-11	DKN Financial Group Limited	IOOF	96	8,020	1.2%	7.3	12.7x
May-11	Shadforth Financial Group	Snowball Group Limited	178	8,600	2.1%	17.0	10.3x
Low					1.2%		10.3x
Median					3.2%		12.7x
Mean					3.7%		12.5x
High					8.4%		14.6x

Source: Capital IQ and company announcements

H: last financial year earnings

Note 1: A 79.7% interest was acquired, all other transactions presented above involved the acquisition of a 100% interest

7.2.3 Assessment of earnings multiples

In assessing an appropriate range of earnings multiples to apply in valuing SFGA on a control basis, we considered the following factors:

- SFGA is significantly larger, in terms of both market capitalisation and FUMA, than the selected comparable companies and the target companies involved in the transactions. With a relatively fixed cost base associated with businesses of this nature, scale benefits may result in increased



profitability and attractiveness as an asset adviser and manager. Based on FY13A Underlying NPAT margins, SFGA generates higher margins than the selected quoted companies.

- ▶ Certain of the quoted companies, such as Fiducian Portfolio Services and Countplus Limited have relatively low levels of trading in their shares, which we have taken into consideration when analysing their implied multiples. In particular, we understand that the liquidity of the shares in Fiducian may be impacted by its small market capitalisation of \$54 million⁴⁹, and the relatively low proportion of shares available to trade for Countplus Limited given its ownership structure.
- ▶ Prior to the announcement of the Scheme, SFGA's share price (on a minority interest basis) implied a LTM Dec13A PE multiple of 14.8x. This is lower than the median of the selected comparable companies of 17.4x. Considering FY13A multiples, we note that SFGA's share price implied an FY13 PE multiple of 16.5x, which is similarly slightly below the median of the selected comparable companies.
- ▶ The LTM Dec13A PE multiples of the comparable companies range from 14.1x (Countplus Limited) through to 20.5x (Equity Trustees Limited⁵⁰), excluding ClearView Wealth Limited which we considered to be less comparable given its significant insurance operations.
- ▶ SFGA has historically demonstrated higher earnings growth than its peers reflecting its history of numerous and successful acquisitions, as well as, in recent years its greater leverage to improving equity markets. This was further demonstrated by SFGA's growth in the 6 months to 31 December 2013 being above the selected companies. We also recognised that the LTM Underlying NPAT does not reflect the full year impact of the Lachlan Partners acquisition, with such growth being reflected in our adopted range of multiples.
- ▶ The trading multiples presented in section 7.2.1 are based on the market price for minority or portfolio share holdings and therefore do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:
 - ▶ The ability to realise some synergistic benefits, for example by merging the operations with those of the acquiring entity
 - ▶ Access to cash flows and payment of dividends
 - ▶ Access to tax benefits
 - ▶ Control of the board of directors and the direction of the company

Historically, control premiums on successful takeovers in Australia have frequently been in the range of 20% to 40% with the premium varying significantly from circumstance to circumstance. It was observable during the global financial crisis however that control premiums increased when equity markets were heavily sold down. Control premiums in the current environment have been observed to approximate 30%, or even higher where there is the potential for significant synergies to be realised.⁵¹

- ▶ Including a premium for control of around 30% would imply an increase in SFGA's share price from \$0.73 per share prior to announcement of the Scheme, to \$0.95 per share. This would imply an LTM Dec13A PE of around 19.2x which is at the upper end of our range.
- ▶ The average and median of the PE multiples implied by the transactions were 12.5x and 12.7x, respectively. These multiples are significantly lower than those observed for the listed companies.

⁴⁹ As at 15 May 2014

⁵⁰ Adjusted to exclude the recent equity raising completed in relation to the pending completion of the ANZ wealth management business acquisition given the earnings of the acquired business were not captured within the FY13 earnings of the company

⁵¹ As presented in the Mergerstat control premium study at 31 March 2014, the median 12 month control premium observed for transactions globally in the financial services sector was 32%



This may be in part attributable to the smaller size of the acquired companies and differing market conditions at the time of the transactions. While the acquisition of Centric Wealth Advisers Limited is a recent transaction, little information is available publicly that would enable us to calculate earnings multiples.

After considering the above factors we have selected a multiple range of 17.5x to 19.5x on a control basis to apply to the selected maintainable Underlying NPAT of SFGA.

7.3 Other assets and liabilities

7.3.1 Surplus assets and liabilities

SFGA holds various investments in certain equity accounted associates as well as listed and unlisted Australian equity securities which are recorded at fair value as financial assets on the balance sheet. Further details are set out in section 3.4 of this Report. Included within SFGA's other income are dividends received from SFGA's equity accounted investments in Duncan Dovico Holdings Pty Limited and QT Financial Planning Pty Limited. A total of \$0.05 million was received in respect of these investments in the 6 months to 31 December 2013, and \$0.3 million received in FY13. As the value of these investments is captured in our capitalised earnings approach, and given the insignificant size of the other investments of SFGA held at an aggregate fair value of \$0.7 million as at 31 December 2013⁵², we have not made any adjustments to the equity value of SFGA in respect of these investments.

We have considered the current and non-current deferred consideration liability of \$15.0 million as at 31 December 2013 as a surplus liability. As set out in the Explanatory Memorandum, Management anticipates that the deferred consideration liability may be reduced by up to \$3.7 million based on current estimates. As a result, this may reduce the deferred consideration liability position from \$15.0 million to \$11.3 million. Given there remains some uncertainty over the deferred consideration liability, in our valuation we have considered the liability may fall within a range.

Additionally, we have made an adjustment of \$9.3 million to reflect the likely surplus cash position of the business expected by 30 June 2014 having regard to the known or anticipated movements in cash subsequent to 31 December 2013. The net cash position as at 31 December 2013 amounted to \$6.7 million, as presented in section 3 of this report. The adjustments considered by us include the assumed cash generated by the business in the intervening period, using 1HY14A Underlying NPAT of \$19.2 million as a proxy. This increase in assumed cash is partly offset by the \$10.3 million dividend paid in April 2014 and the expected transaction costs of \$6.2 million associated with the Scheme.

Management of SFGA has advised that as at the date of this report, there are no other significant surplus assets or liabilities which require inclusion within the valuation.

7.4 Shares outstanding

As detailed in section 3.5 of this report, SFGA currently has 734,531,160 ordinary shares outstanding. As set out in section 9.2 of the Explanatory Memorandum, if the Scheme proceeds, all outstanding performance rights will vest and convert into ordinary shares in SFGA. As at 25 June 2014, there were 5,679,602 performance rights on issue⁵³, including 3,000,000 held by Managing Director, Mr Anthony Fenning. On a diluted basis, the number of ordinary shares outstanding for the purposes of our valuation analysis is therefore 740,210,762.

⁵² Presented in the balance sheet in the aggregate investment balance of \$4.8 million as at 31 December 2013

⁵³ Includes 343,040 of Mrs Linda Fox's 1,165,351 performance rights which the SFGA Board has agreed will vest prior to the cessation of her employment with SFGA as referred to in section 3.5 of this report



7.5 Summary of valuation analysis

We summarise our fair market valuation of SFGA on a control basis as follows:

<i>Currency: \$ millions</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Maintainable Underlying NPAT	7.1	36.2	36.2
Assessed earnings multiple	7.2	17.5	19.5
Equity value of SFGA		633.5	705.9
less: deferred consideration liabilities	7.3	(15.0)	(11.3)
add: surplus cash	7.3	9.3	9.3
Total equity value of SFGA		627.8	703.9
Ordinary shares outstanding	7.4	734,531,160	734,531,160
Performance rights	7.4	5,679,602	5,679,602
Total ordinary shares		740,210,762	740,210,762
Value per SFGA Share (\$)		0.85	0.95

Source: EY analysis

Our analysis results in a fair market value per SFGA Share of between \$0.85 and \$0.95 per share on a controlling interest basis.

7.6 Valuation cross checks

7.6.1 Ratio of FUMA to equity value cross check

We also considered the equity value of SFGA on a control basis as a percentage of FUMA. As set out in the below table, the FUMA of SFGA as at 31 March 2014 was \$30.5 billion, as discussed in section 3.2 of this report.

<i>Currency: \$ millions</i>	<i>Low</i>	<i>High</i>
FUMA as at 31 March 2014 (\$ billions)	30.5	30.5
Total equity value of SFGA	627.8	703.9
Total equity value of SFGA as % of FUMA	2.1%	2.3%

Source: EY analysis

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

- ▶ The FUMA multiples of the comparable companies on a minority basis presented in section 7.2.1 range from 1.0% to 4.0%. This excludes ClearView Wealth Limited which may be of limited comparability given the business' focus on insurance activities. The average and median of the companies, excluding ClearView, were 2.3% and 1.9% respectively. SFGA's implied FUMA multiple is below the average of the selected comparable companies which may reflect that some of its FUMA generates relatively lower margins than the FUMA mix of the quoted companies.
- ▶ Of the comparable companies, based on size (market capitalisation and FUMA) and the nature of operations, we consider Equity Trustees Limited and Countplus Limited to be more comparable to SFGA. Respectively, their FUMA multiples were 1.1% and 1.9%. We do however note that SFGA's Underlying NPAT margin is higher than Countplus Limited's and marginally higher than Equity Trustees Limited's. However, this should only be considered a very broad cross check applied in this industry.



- ▶ As shown in section 7.2.2, the average and median FUMA multiples implied by recent transactions were 3.7% and 3.2%, reflecting a range of 1.2% to 8.4%. Excluding percentages greater than 5.0%, the average and median were 2.5% and 2.3%. Of the transactions, we note that all involved target companies substantially smaller in size than SFGA. However, we do note that the transactions by IOOF and Snowball implied FUMA multiples ranging between 1.2% and 2.3%. Furthermore, many of these transactions were undertaken amidst very different market conditions and care should be taken in drawing meaningful conclusions.

We consider the above supportive of our valuation range.

7.6.2 Cross check to SFGA Share price

We also considered the reasonableness of our valuation by comparing the assessed value per SFGA Share to recent traded prices in SFGA Shares post the announcement of the proposed Scheme. In this respect, we note the following:

- ▶ The last closing price prior to the date of the announcement on 15 May 2014 was \$0.73 per SFGA Share. The share price subsequently rose to \$0.87 per SFGA Share upon announcement of the Scheme.
- ▶ The last closing price on 25 June 2014 was \$0.86 per SFGA Share. This falls within but towards the lower end of our assessed valuation range, indicating that equity markets are factoring in, at least to an extent, a control premium associated with the proposed Scheme being approved and implemented. Equally, the market may not be factoring in the full control premium given the Scheme currently remains subject to various approvals.

While SFGA Shares are relatively illiquid, we consider the above supportive of our valuation given our fair market valuation per SFGA Share is consistent with the trading price range over the period following the announcement of the proposed Scheme.



8. Valuation of the Scheme Consideration

In assessing the fair market value of the Scheme Consideration, we applied a market based approach relying on the observed share prices of IOOF's shares prior to the announcement of the Scheme having formed the view that the IOOF shares are relatively liquid. In applying this approach, we considered:

- ▶ the value of IOOF based on its share price prior to the announcement of the Scheme. ASIC Regulatory Guide 111.32 stipulates that where the market price for securities is used as a measure of the value offered as consideration, certain factors must be considered including:
 - ▶ the depth of the market for those securities
 - ▶ the volatility of the market price, and
 - ▶ whether or not the fair market value is likely to represent the value if the transaction is successful.
- ▶ the value of the notionally combined IOOF and SFGA, determined considering:
 - ▶ the value of IOOF based on its market value prior to the announcement of the Scheme
 - ▶ the value of SFGA on a minority basis
 - ▶ any synergies expected to be realised as a result of the Scheme
 - ▶ other relevant adjustments for the likely impact of the transaction such as acquisition costs
 - ▶ the potential impact on value of an increase in funding costs in the event that the Maximum Cash Consideration forms part of the Scheme Consideration.

In forming our overall valuation conclusion we also considered the reasonableness of the Underlying NPAT and FUMAS multiples implied by the valuation.



8.1 Value of IOOF based on its share price

We consider the IOOF share price to be reflective of fair market value for the following reasons:

- ▶ IOOF shares appear to be relatively well traded, including in comparison to quoted wealth managers. Shares are traded on a daily basis, with average monthly volumes equivalent to 4.8% of total shares on issue over the last 12 months. Over the last 12 months, 60% of the total number of shares on issue was traded.
- ▶ The table below sets out the volume and liquidity of IOOF shares in the year prior to the announcement of the Scheme.

IOOF share price and volume history

<i>\$ per share</i>	High	Low	Close	Monthly volume traded (million shares)	Monthly volume traded as a % of total shares on issue
May 2013	8.97	8.24	8.32	13.65	5.9%
June 2013	8.32	7.06	7.36	13.10	5.6%
July 2013	8.26	7.25	8.26	11.93	5.1%
August 2013	8.88	8.30	8.50	12.28	5.3%
September 2013	8.95	8.21	8.32	11.69	5.1%
October 2013	9.30	8.23	8.99	13.08	5.7%
November 2013	9.08	8.74	8.74	9.12	3.9%
December 2013	9.00	8.38	8.96	8.52	3.7%
January 2014	9.16	8.71	8.81	6.22	2.7%
February 2014	9.68	8.49	9.00	10.77	4.7%
March 2014	9.44	8.64	8.85	12.32	5.3%
April 2014	8.74	8.31	8.48	11.37	4.9%
Up to 15 May 2014	8.54	8.07	8.13	11.21	4.8%

Source: CapitalIQ

As indicated in the table below, the overall trading volume of IOOF shares over the last 12 months was approximately 60% of the total shares on issue. This is higher than the average of the Australian quoted wealth management companies of 43% and median of 23%. We do note that this average may be impacted by a few smaller companies, as well as companies such as BT Investment Management having a lower free float. The liquidity of selected listed comparable Australian financial services companies, calculated as a percentage of shares on issue, is shown in the table below:

Liquidity preceding the offer announcement

<i>\$ per share</i>	High price	Low price	Volume	Period %	Monthly %
IOOF	9.7	7.1	139.0	60.0%	5.00%
SFG Australia	0.8	0.6	101.1	13.8%	1.15%
Platinum Asset Management	7.1	3.7	490.1	95.0%	2.81%
Challenger	52.9	34.7	39.2	96.6%	7.92%
Perpetual	7.4	2.9	57.2	22.8%	8.05%
BTIM	2.7	1.7	4.8	18.1%	1.90%
K2	0.8	0.4	25.1	10.8%	0.90%
Magellan	14.1	7.9	126.8	81.9%	6.82%
HFA	1.2	0.7	28.5	24.0%	2.00%
Treasury Group	10.4	6.3	11.7	50.6%	4.22%
Low				10.8%	0.90%
High				96.6%	8.05%
Average				42.8%	3.97%
Median				23.4%	2.81%

Source: CapitalIQ

- ▶ As a member of various indices including the ASX 100, ASX 200 and All Ordinaries, its shares are more marketable. As such, various index tracker funds in effect are required to hold investments in IOOF.



- ▶ The market appears well informed as to the company's performance and prospects and therefore the traded price in a liquid market is likely to be reflective of market value. IOOF is also followed by a wide range of analysts.
- ▶ IOOF has a strong institutional shareholder base with a high proportion of shares able to be traded, or free float.

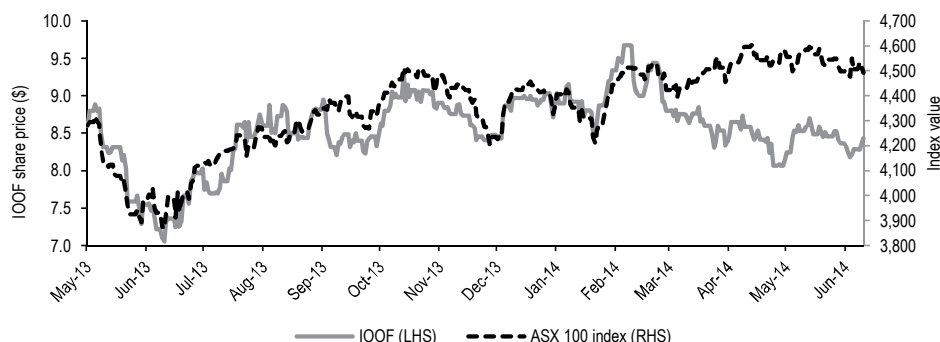
As a result of the above factors, we consider the price at which IOOF shares have been trading represents an appropriate estimate of the value of an IOOF share on a minority basis.

8.1.1 VWAP

IOOF's share price has fluctuated over the twelve months prior to the announcement of the Scheme, decreasing from \$8.60 on 16 May 2013 to \$8.13 per share on 15 May 2014, the day prior to the announcement of the Scheme.

As indicated in the following chart, IOOF's share price has generally moved in line with the market, specifically the ASX 100 index. However, its share price declined in both absolute terms and relative to the index, in the two months preceding the announcement of the Scheme following announcement of IOOF's interim results on 25 February 2014, which were below analysts' average forecast expectations.

IOOF share price and ASX 100 index movement since 16 May 2013



Source: CapitalIQ

The VWAP of IOOF's share price, over various periods preceding the announcement of the Scheme, is set out in the table below:

Price and VWAP up to 15 May 2014

	\$ per share
Close price	8.13
1 week VWAP	8.09
1 month VWAP	8.34
3 month VWAP	8.70

Source: CapitalIQ

As indicated, the price of IOOF shares reduced from a high of \$9.70 per share in late February 2014 to a low of \$8.07 per share on 9 May 2014. Since the recent low in early May 2014, IOOF's share price rose to \$8.13 per share on 15 May 2014, being one day prior to announcement of the Scheme. Since announcement, the share price of IOOF has further increased, reaching \$8.70 per share on 28 May 2014, and was \$8.44 per share on 25 June 2014. IOOF's 10 day VWAP as at 25 June 2014 was \$8.30 per share.



8.1.2 Value of an IOOF share following the implementation of the Scheme

The table below sets out our calculation of the value of an IOOF share assuming the Scheme is approved and implemented. The analysis shown assumes that the Maximum Cash Consideration cap is reached.

Value of an IOOF share assuming Maximum Cash Consideration

A\$ millions	Low	High
IOOF shares outstanding as at 25 June 2014 ¹	232.1	232.1
Price per share (\$)	8.13	8.34
Equity value of IOOF based on above share price range	1,887.1	1,935.9
Deduct: cash paid in accordance with the Scheme	(100.0)	(100.0)
Add: 100% of SFGA (on a minority basis)	482.9	541.5
Add: Potential synergies	126.0	147.0
Equity value of the Combined Group on a minority basis	2,396.0	2,524.3
Total number of IOOF shares after the Scheme	296.9	297.2
Value per IOOF share (\$)	8.07	8.50

Source: CapitalIQ

Note 1: Includes treasury shares

In relation to this analysis, we note:

- ▶ The IOOF equity value of between \$1,887.1 million and \$1,935.9 million is based on:
 - ▶ The total number of ordinary IOOF shares on issue prior to the Scheme, of 232.1 million.
 - ▶ A share price range of between \$8.13 per share and \$8.34 per share. The low end of this range is based on the share price of IOOF on 15 May 2014 as this reflects the market's view of value immediately prior to the announcement of the Scheme, and does not take into account any perceived impact of the Scheme on the value of IOOF shares. The high end of the share price range is based on the 1 month VWAP of \$8.34 per share. This recognises that the share price of IOOF has displayed volatility, with the VWAP in the week prior to announcement of the Scheme being low relative to prior months.
- ▶ We have assumed that the Maximum Cash Consideration cap is reached and therefore deducted \$100 million of cash, as this is expected to be funded by existing cash reserves and additional banking facilities. We then take into account the assumed lower number of shares issued in our calculation of the number of shares on issue after the Scheme is implemented.
- ▶ The equity value of SFGA on a minority basis is based on the valuation analysis contained in section 7.5 of this report, and excluding the premium for control of 30%.
- ▶ We have assessed the potential value of synergies, net of implementation costs, to reflect the potential benefits of the Combined Group. We note that upon announcement of the Scheme, management of IOOF stated the potential for total pre-tax synergies of \$20 million by FY16. Of these, we understand that \$15 million relates to potential cost savings. We considered the reasonableness of these synergies as follows:
 - ▶ We held discussions with management of both SFGA and IOOF to understand the basis for the quantum and level of robustness in arriving at these estimates by IOOF. These estimates were derived based on a review of the key functions of the business that may be considered duplicated on a combined basis, as well as other potential cost savings that may be achieved as a result of the combination and greater scale.
 - ▶ IOOF has a demonstrated ability to extract synergies in its prior transactions.
 - ▶ The level of assumed cost synergies equates to approximately 17% of SFGA's cost base, or around 2% of the pro forma costs of the combined business. These benchmarks are



significantly lower than the actual cost synergies achieved by IOOF on the acquisitions of Plan B and DKN. We recognise that this may not be unreasonable as the Scheme reflects a combination of two complementary businesses, rather than purely adding scale to IOOF's existing business.

- ▶ These levels of synergies are also within the range that we have observed in other acquisitions of financial services businesses generally.
- ▶ In considering the value of the proposed synergies, we recognise that there is risk associated with the timing and quantum of these benefits, as well as one-off costs. Taking these into account, we therefore applied a lower range of PE multiples to the post-tax benefit of synergies.

Our assessed value of synergies is between \$126 million and \$147 million, based on estimated pre-tax cost synergies of \$15 million and a multiple of 12.0x to 14.0x.

- ▶ The total number of IOOF shares, assuming the Scheme is approved and implemented is presented in the table below and has been calculated as follows:
 - ▶ The total number of IOOF ordinary shares on issue of 232,118,034⁵⁴. We have excluded the impact of any unvested options, deferred shares or performance rights as the dilutive impact of these is considered to already be reflected in IOOF's share price.
 - ▶ The number of IOOF shares to be issued to SFGA shareholders, based on the total number of SFGA Shares (on a fully diluted basis) of 740,210,762 multiplied by 0.104. Based on the share prices one day prior to the announcement of the Scheme, this implies a total of 309,099,953 shares.
 - ▶ We then deducted \$100 million worth of IOOF shares at between \$8.13 and \$8.34 per share, assuming the Maximum Cash Consideration cap is reached. This reduces the total number of outstanding shares in IOOF by between 12,300,123 and 11,990,408 shares.
 - ▶ The total number of shares in IOOF relied upon in our assessment is therefore between 296,885,351 and 297,195,066.

<i>Number of shares</i>	<i>Low</i>	<i>High</i>
Ordinary shares, including treasury shares	232,118,034	232,118,034
IOOF shares to be issued to SFGA Shareholders ¹	76,981,919	76,981,919
Sub-total	309,099,953	309,099,953
Less: shares assuming Maximum Cash Consideration ²	(12,300,123)	(11,990,408)
Total	296,799,830	297,109,546

Note 1: Calculated as 0.104 multiplied by 740,210,762 SFGA Shares

Note 2: Calculated as \$100 million divided by the per share range of \$8.13 to \$8.34

- ▶ We recognise that the value of the Scheme Consideration will ultimately be based on the VWAP over the 10 trading days prior to the Scheme Meeting, which is expected to occur on 1 August 2014. Given the movement in share price post the announcement of the Scheme and the potential for further movement up to the Scheme Meeting, we have considered the impact on the Scheme Consideration over a range of scenarios.
- ▶ In particular, we considered the impact on the value of the Scheme Consideration assuming a VWAP of \$8.30 per share, having regard to the 10 day VWAP on 25 June 2014. Under this scenario the upper end of the value range per share would be higher than our assessed values, implying a range of \$8.20 to \$8.47 per IOOF share. Therefore, to the extent that the 10 day VWAP

⁵⁴ Includes IOOF's treasury shares on issue of 117,000



immediately prior to the Scheme Meeting is higher than our range of \$8.07 to \$8.50 per IOOF share, the implied value of the Scheme Consideration per share will also be higher.

- We also considered the value of the Scheme Consideration assuming no elections to receive the Maximum Cash Consideration are made. Under this scenario, the value per share is \$8.08 to \$8.49 per share. This negligible impact reflects that any cash outlay is mitigated by the lower dilutive impact of new shares being issued.

Based on our analysis, we have assessed the value per IOOF share to be between \$8.07 per share and \$8.50 per share. The low end of the range is marginally below the share price of \$8.13 the day prior to announcement of the Scheme while the top end of our range is slightly above the current share price on 25 June 2014 of \$8.44 per share.

8.2 Implied multiples

We have considered the reasonableness of the value of IOOF following implementation of the Scheme, by comparing the Underlying NPAT and FUMAS multiples implied by the combined equity value calculated in section 8.1.2 above. This was compared to the trading multiples derived from the share prices of comparable listed companies and recent acquisitions in the wealth management sector.

The table below sets out our calculation of the implied multiples.

Implied multiples

<i>A\$ millions</i>	Low	High
Equity value of IOOF (minority basis)	2,396.0	2,524.3
Underlying NPAT - LTM	158.2	158.2
Implied Underlying NPAT multiple	15.1x	16.0x
FUMAS	154,400	154,400
Implied FUMAS multiple	1.55%	1.63%

Source: CapitalIQ

We note the following in relation to this table:

- We have assumed that the pro forma Underlying NPAT for the Combined Group for the last 12 months to 31 December 2013 is equal to IOOF Underlying NPAT of \$115.9 million⁵⁵ plus SFGA Underlying NPAT of \$36.2 million as shown in section 7.1 of this report.
- Our analysis implies an Underlying LTM Dec13A PE multiple range of 15.1x to 16.0x. This compares to the average and median multiples of IOOF's peers of 15.9x and 16.4x. We make the following observations:
 - IOOF's share price one day prior to the announcement of the Scheme implied a LTM Dec13A PE multiple of 16.3x.
 - The multiples of the comparable wealth management companies indicate a wide range which may reflect the different size, business mix and growth prospects. In addition, we note that the multiples of Perpetual have not been adjusted on a pro forma basis for its recent acquisition of The Trust Company, which may account for the high multiple.
 - The average and median multiples of the listed companies are 15.9x and 16.4x, respectively. The multiples implied by our value range are at the low end or slightly below this range.
- FUMAS of \$156.9 billion is based on IOOF FUMAS of \$123.9 billion and SFGA FUMA of \$30.5 billion as at 31 March 2014.

⁵⁵ Based on reported Underlying NPAT for 1HY13A of \$50.9 million, for FY13A of \$108.8 million and for 1HY14A of \$58.0 million



- The equity value range of IOOF implies FUMAS percentages of between 1.55% and 1.63%. The listed comparable companies indicate a wide range from 1.2% (Treasury Group) to 7.6% (Magellan) of FUMAS⁵⁶. This may reflect differences in the businesses, with some of the listed companies generating significant performance fees, which can impact on these percentages. The implied multiple is broadly in line with the implied FUMAS percentage of IOOF prior to the announcement of the Scheme of 1.5%.

Based on the above, we consider the assessed value of IOOF shares to be reasonable.

8.3 Valuation of Scheme Consideration offered

Based on our analysis, the value of an IOOF share is between \$8.07 per share and \$8.50 per share. As Scheme Shareholders will receive 0.104 IOOF shares for each SFGA Share, the Scheme Consideration equates to between \$0.84 and \$0.88 per SFGA Share.

⁵⁶ Excludes outliers of Platinum Asset Management and K2 Asset Management



9. Evaluation of the proposed Scheme

9.1 Approach

In forming our opinion as to whether the proposed Scheme is fair and reasonable and therefore in the best interests of SFGA Shareholders, we have considered a number of factors, including:

- ▶ whether the estimated value of an SFGA Share, on a controlling interest basis, is higher or lower than the fair market value of the Scheme Consideration that will be received by SFGA Shareholders in the event that the proposed Scheme is approved and implemented
- ▶ the price at which the SFGA Shares are proposed to be acquired relative to the listed market price of SFGA prior to the announcement of the Scheme, and whether a premium for control is reflected in the Scheme Consideration and is appropriate in the circumstances
- ▶ the strategic rationale for the transaction and IOOF's intention with respect to SFGA
- ▶ the existence of alternatives to the proposed Scheme and the consequences for SFGA Shareholders
- ▶ the likelihood of an alternative superior proposal being received
- ▶ the likely market price and liquidity of SFGA Shares in the event that the proposed Scheme is not approved
- ▶ other advantages and disadvantages that SFGA Shareholders should consider in assessing whether to approve the proposed Scheme

9.2 Fairness

In determining whether the Scheme is fair, we have compared the assessed value of an SFGA Share, on a controlling interest basis, to the fair market value of the Scheme Consideration that will be received by SFGA Shareholders in the event that the Scheme is approved and implemented. The following table summarises this comparison:

Comparison of the fair market value of SFGA to the proposed Scheme Consideration

Currency: \$	Low	High
Value of Scheme Consideration	0.84	0.88
Assessed value of SFGA per share (on a control basis)	0.85	0.95

Source: EY

The assessed value of an SFGA Share on a fully diluted controlling interest basis is \$0.85 to \$0.95 per share. The value of the Scheme Consideration being between \$0.84 to \$0.88 per share is consistent with this range.

For those SFGA Shareholders who elect to receive shares, the ratio and number of shares to be received is fixed⁵⁷. For those who elect to receive the Scheme Consideration in cash, and the cash component is scaled back, the number of shares received may change. In both circumstances, the implied value of the Scheme Consideration will be impacted by any movements in the market value of

⁵⁷ The ratio of 0.104 will be subject to an adjustment in the event that the record date for the IOOF FY14 dividend occurs before the implementation of the Scheme. Any such adjustment will increase the exchange ratio by an amount necessary to provide SFGA Shareholders the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme. To ensure that SFGA Shareholders receive the value attributable per share under the Scheme had the record date not occurred before the implementation of the Scheme, a corresponding deduction to the IOOF 10 day VWAP will also take place. However, based on the current timetable, it is not anticipated that any such adjustments will be required



IOOF shares. Given the movement in share price post the announcement of the Scheme and the potential for further movement up to the Scheme Meeting, we have considered the impact on the Scheme Consideration over a range of scenarios.

In particular, we considered the impact on the value of the Scheme Consideration assuming a VWAP of \$8.30 per share, having regard to the 10 day VWAP of IOOF shares on 25 June 2014. Under this scenario the value of the Scheme Consideration would be between \$0.85 and \$0.88, being within our assessed range. Therefore, to the extent that the 10 day VWAP immediately prior to the Scheme Meeting is higher than our range of \$8.07 to \$8.50 per IOOF share, the value of the Scheme Consideration per share will also be higher.

9.3 Reasonableness & best interests

As the Scheme Consideration is consistent with the range of the assessed value of an SFGA Share we consider the terms of the proposed Scheme to be fair. Under the guidance provided by RG 111, as we consider the terms to be fair, we also consider the terms to be reasonable. As we are able to conclude that the terms of the Scheme are fair and reasonable, we also consider them to be in the best interests of Scheme Shareholders.

9.4 Other factors

Notwithstanding the above conclusion that the terms of the proposed Scheme are fair and reasonable, we have also considered other factors that SFGA Shareholders should consider in forming their views as to whether or not to vote in favour of the Scheme.

Certain of the factors outlined below may only be an advantage or disadvantage to the extent that an SFGA Shareholder receives scrip for at least a portion of their SFGA shareholding and continues to hold those IOOF shares. Those SFGA Shareholders that elect to and ultimately receive cash only, or those shareholders who decide to sell their IOOF shares, will not consider various of these factors to be advantages or disadvantages.

9.4.1 Advantages of the Scheme

SFGA Shareholders are receiving a premium to the share price of SFGA prior to the announcement of the Scheme

The Scheme provides SFGA Shareholders with the opportunity to realise value for their SFGA Shares in excess of the price at which they traded prior to the announcement of the Scheme on 15 May 2014.

The Scheme Consideration of \$0.84 to \$0.88 for each SFGA Share held represents a premium of between 15% and 21% to the closing price of \$0.73 per SFGA Share on 15 May 2014, being the last trading day prior to the announcement of the Scheme. Further, as the one month VWAP to 15 May 2014 was \$0.72 and the three month VWAP to 15 May 2014 was \$0.73, it represents a similar premium to recent share prices. In the absence of any acquisition, or similar form of transaction, SFGA Shareholders may be unable to realise a control premium above the minority interest value.

We note that shares issued to SFGA Shareholders will comprise between 22% and 25% of total IOOF shares on issue, on a fully diluted basis. The lower proportion of 22% assumes the Maximum Cash Consideration cap of \$100 million is utilised with the 25% assuming the Scheme Consideration only comprises IOOF shares. This is not unreasonable for SFGA Shareholders who are contributing just under 20% of FUMAS to the combined group, and 22% of value based on the relative market capitalisations of each company prior to the announcement of the Scheme.

SFGA Shareholders will be part of a larger, more diversified group

If the proposed Scheme is approved and implemented, the Combined Group will continue to provide wealth management solutions across an end-to-end service model with approximately \$154.5 billion in



FUMAS and an estimated 1,119 advisers⁵⁸. In particular, SFGA's focus on high net worth individuals and small to medium enterprises will be complemented by IOOF's platforms and product range, together facilitating the provision of advice, portfolio administration, accounting, insurance, SMSF and investment management services⁵⁹. The Combined Group will become the third largest advice business in Australia by FUA and one of the largest ASX listed wealth management businesses⁶⁰. Its greater scale and expanded capital base may enhance its ability to pursue further growth opportunities. This may be considered to be an advantage for those SFGA Shareholders who receive and choose to retain their shares in IOOF.

SFGA Shareholders will continue to participate in possible future increases in the value of SFGA

Our valuation of the Scheme Consideration reflects assumptions in relation to potential future growth opportunities available, as well as the ability to realise synergies. To the extent that the Combined Group exceeds the growth expectations and achieves, or outperforms, the level of assumed synergistic benefits reflected in our valuation, existing SFGA Shareholders who receive shares in IOOF, and retain those shares, will continue to participate in any future increases in the value of IOOF.

Greater liquidity of IOOF shares

SFGA Shares are relatively illiquid. IOOF shares, on the other hand, are significantly more liquid with around 60% of shares on issue traded over a twelve month period. Further, as a result of the proposed Scheme, IOOF's market capitalisation is likely to significantly increase, to \$2.6 billion⁶¹. While IOOF is already included in various indices, such as the ASX 100 and ASX 200, there may still be an increase in demand for its shares, particularly from index linked investment or tracker funds. This may be considered to be an advantage for those SFGA Shareholders who receive, and choose to hold their shares in IOOF for some period of time.

Higher dividend yields

SFGA Shareholders that elect to receive shares in IOOF, and retain those shares, may receive a higher dividend yield, than was received as a shareholder of SFGA. As set out in section 5.12 of the Explanatory Memorandum, IOOF's current dividend policy indicates a targeted payout ratio of 60% to 90% of Underlying NPAT, with the company's stated intention to maintain this policy if the Scheme is approved and implemented. With this policy in place, IOOF has historically paid out between 80% and 90% of Underlying NPAT over FY11 to FY13, providing an average yield of 5.0% over this period⁶². Over the same period, SFGA's payout ratio has ranged between 50% and 70% of Underlying NPAT, providing an average yield of 3.2%⁶³. In the event that the Scheme is approved and implemented, based on the current share price of IOOF as at 25 June 2014 and assuming the payout ratio policy of between 60% to 90% is maintained as is currently intended, the yield of the Combined Group would range between 4.9% and 7.3%.

We note that both SFGA and IOOF have historically paid fully franked dividends over the last four years at least, and therefore it is likely going forwards that SFGA Shareholders currently able to utilise franking credits would remain able to do so.

As such, to the extent that SFGA Shareholders elect to receive at least part of the Scheme Consideration in IOOF shares and continue to hold their IOOF shares, they may benefit from a greater dividend yield.

⁵⁸ As at 31 March 2014, Page 5, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁵⁹ Page 3, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁶⁰ Page 4, "SFG Australia & IOOF enter into a Scheme Implementation Agreement", investor presentation, 16 May 2014

⁶¹ Based on 25 June 2014 market capitalisation for each of SFGA and IOOF aggregated, CapitalIQ

⁶² Calculation based on the IOOF share price one day prior to the announcement of the Scheme

⁶³ Calculation based on the SFGA Share price one day prior to the announcement of the Scheme



9.4.2 Disadvantages of the proposed Scheme

Costs associated with the Scheme

As set out in the Explanatory Memorandum, SFGA estimates that it will incur total transaction costs of approximately \$6.2 million. The majority of these costs would be incurred irrespective of whether or not the proposed Scheme was approved and implemented. In addition to the above, if the Scheme is not approved and implemented, SFGA may be obligated to pay a \$6.0 million break fee to IOOF as set out in section 3.4 (c) of the Explanatory Memorandum, in certain circumstances⁶⁴.

9.4.3 Other factors

The value of the consideration may change up until the date of the Scheme Meeting

The implied market value of the Scheme Consideration may change if the market price of IOOF shares changes up until the day immediately preceding the Scheme Meeting.

Having regard to the VWAP of IOOF, we note that the one month VWAP to 15 May 2014 was \$8.34 and the three month VWAP to 15 May 2014 was \$8.70. The share price of IOOF one day prior to the announcement of the Scheme was \$8.13 per share. IOOF's share price has subsequently increased which, all else being equal, implies a higher Scheme Consideration.

Given the historical and recent movements in the IOOF share price, we have performed some sensitivity analysis around the Scheme Consideration compared to the fair market value of each SFGA Share. The table below sets out a range of outcomes based on various assumptions. The numbers shown in the table represent the value of the Scheme Consideration. We note that in almost all of these scenarios, the Scheme Consideration is within the range of the SFGA Share value on a controlling interest basis. This analysis also indicates that IOOF's 10 day VWAP would need to fall to less than \$8.18 per share in order for the Scheme Consideration to fall below the value range.

Sensitivity analysis – IOOF share price and SFGA multiple

Sensitivity analysis - IFL share price and SFGA multiple (synergy multiple at 12.0x)						
Consideration (\$)		SFGA multiple				
		17.5x	18.0x	18.5x	19.0x	19.5x
IOOF share price	8.13	0.84	0.84	0.85	0.85	0.86
	8.24	0.85	0.85	0.86	0.86	0.87
	8.34	0.86	0.86	0.87	0.87	0.88
	8.45	0.86	0.87	0.87	0.88	0.88
	8.55	0.87	0.88	0.88	0.89	0.89

Source: EY analysis

Note: Shaded area denotes scenarios where the result is higher than the low end of our assessed value of an SFGA Share on a controlling basis

Note 1: For illustrative purposes, the above table is presented based on a synergy multiple of 12.0x reflecting the low end of our assessed range

If the Scheme is not approved the SFGA Share price would likely fall below current trading levels

If the Scheme is not approved, and in the absence of an alternative transaction, SFGA will continue to operate in its current form and be listed on the ASX. As a consequence:

- ▶ SFGA Shareholders will continue to own securities in SFGA, but will not receive any IOOF securities.
- ▶ The advantages, disadvantages and risks of the proposal, will not occur other than with respect to the one-off transaction costs of approximately \$6.2 million incurred prior to the Scheme Shareholders meeting. The majority of these costs would be incurred irrespective of whether or not the proposed Scheme was approved and implemented.

⁶⁴ The break fee will be payable if the Scheme does not go ahead due to SFGA being acquired by a third party under a competing proposal, a majority of the SFGA Directors do not recommend the Scheme or change their recommendation or there is a breach of the exclusivity provisions set out in the Scheme implantation agreement between IOOF and SFGA.



- ▶ The price of SFGA Shares will likely fall. We note that SFGA Shares rose by 18.5% on 16 May 2014 following announcement of the proposed Scheme. Since announcement, the SFGA Shares have up to 25 June 2014 continued to trade at greater than 17% higher than the closing price one day preceding the announcement. As such, it is likely that this premium would be ceased to be priced into the SFGA Shares, causing the price to decline significantly.

Some shareholders may prefer an advice business

SFGA Shareholders currently hold an interest in what is predominantly a financial advice business, with approximately 50% of its revenue generated in the form of financial advice fees generated on funds under advice. If the Scheme is approved and implemented, SFGA Shareholders will hold an interest in the Combined Group, which will be a larger more diversified business with approximately 30% of its revenue earned from the provision of financial advice and 37% from its platform offerings. Notwithstanding the potential benefits of diversification discussed in section 9.4.1 of this report, this may not necessarily be attractive to all investors.

To the extent however that SFGA Shareholders do not wish to hold an interest in the Combined Group, they may elect to receive cash rather than IOOF shares or may sell their IOOF shares subsequent to the transfer.

Potential for alternative superior proposals to emerge

Over the last three years SFGA's strategy was to seek strategically attractive transactions. In particular, in the 2013 Annual General Meeting, following the unsuccessful merger with WHK Group Limited, SFGA highlighted its continued focus on the pursuit of transformational as well as tuck-in transactions in what Management referred to as a "continually consolidating and rapidly changing industry"⁶⁵. In making these comments and referring to recent transactions in the sector such as the acquisition of The Trust Company Limited by Perpetual Limited and the sale of Centric Wealth Limited, SFGA noted that it had appointed a number of advisors to assist in evaluating its strategic options.

Following this process, this resulted in IOOF and SFGA entering into the Scheme Implementation Agreement. No other formal offers for SFGA were received during this process.

While it is possible that an alternative proposal involving SFGA may emerge, we note that:

- ▶ since the announcement of the Scheme, no superior proposals have been received and the directors of SFGA are not aware of any potential superior alternative proposal likely to emerge
- ▶ in the event that there is a competing proposal and a superior proposal from IOOF has been publicly announced by SFGA, IOOF may exercise its rights under the Call Option Deed providing it with around 16% of the voting rights of SFGA. This may act as a deterrent to another party considering making any offer
- ▶ the terms of the implementation agreement prevent SFGA and its representatives from actively seeking alternative acquirers or from negotiating or otherwise co-operating with them in the formulation of a proposal. Furthermore, a break fee of \$6.0 million may be payable by SFGA in certain circumstances, such as SFGA entering into an alternative proposal.

These factors may reduce the likelihood of any superior proposals emerging.

Increased debt levels

IOOF currently has relatively low net debt levels of \$28.9 million as at 31 December 2013. If SFGA Shareholders elect to receive the Maximum Cash Consideration of \$100 million, this would result in an increase in net debt as a proportion of value of the merged group to approximately 6%⁶⁶. While debt

⁶⁵ Page 20, "2013 Full year results SFG Australia Limited", 29 August 2013

⁶⁶ Calculated based on the net debt positions of both SFGA and IOOF as at 31 December 2013, inclusive of the surplus cash/liabilities of SFGA as set out in section 7.5 of this report



levels may increase, depending on the extent of SFGA Shareholder elections, IOOF's overall gearing levels⁶⁷ are expected to remain lower than the average of its Australian wealth management peers of approximately 13%⁶⁸.

Tax consequences

There may be certain tax implications for individual SFGA Shareholders in connection with the Scheme if it is approved and implemented. The exact nature and impact is uncertain and will depend on the profile of each SFGA Shareholder. These specific consequences need to be borne in mind by each SFGA Shareholder in weighing up the merits of the Scheme.

As such, SFGA Shareholders should refer to section 8 of the accompanying Explanatory Memorandum for a detailed explanation of the potential tax consequences. We understand however that for Australian resident Scheme Shareholders, roll-over relief may be available on any capital gains tax in certain circumstances but will not be available to the extent that an SFGA Shareholder elects to receive Maximum Cash Consideration.

9.5 Conclusions

Based on our consideration of the matters outlined above, in our opinion, the Scheme is fair and reasonable and therefore is in the best interests of the Scheme Shareholders.

⁶⁷ Average net debt as a proportion of enterprise value

⁶⁸ Based on the average 5 year net debt as a proportion of the enterprise value of IOOF's peers



Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors and representatives of Ernst & Young Transaction Advisory Services Limited responsible for this report have not provided financial advice to SFGA or IOOF.

Prior to accepting this engagement we considered our independence with respect to SFGA and IOOF with reference to ASIC Regulatory Guide 112 *Independence of experts*. Ernst & Young, and global affiliates thereof, have not provided any services to either party in relation to the Scheme other than the preparation of this report. Ernst & Young has previously provided professional services to SFGA and its subsidiaries. This included the provision of tax compliance advice for SFGA and valuation of various assets prior to 2011. Ernst & Young has also provided professional compliance services to IOOF including acting as appointed actuary for IOOF Ltd, a friendly society of IOOF. Ernst & Young has not provided any advice to either party in relation to the proposed transaction. We are not aware of any conflict of interest either in relation to the firm or the individual professional staff involved in this engagement which would impact on our ability to provide an independent and unbiased opinion with respect to the proposed transaction.

This report has been prepared specifically for the security holders of SFGA. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than the SFGA security holders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by SFGA, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose. SFGA has provided an indemnity to us for any claims arising out of any mis-statement or omission in any material or information provided to us in the preparation of this report.

We provided draft copies of this report to the directors and management of SFGA for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this report as a result of this review by the directors and management of SFGA have not changed the approach or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report estimated at approximately A\$170,500 inclusive of GST. We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the preparation of this report. No part of the fee is contingent on the conclusions reached, the content or the future use of this report.

The principal persons responsible for the preparation of this report are Julie Wolstenholme and Stuart Bright. Julie Wolstenholme, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 13 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered. Stuart Bright, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.



The preparation of this report has had regard to relevant ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2008. It is not intended that the report should be used for any other purpose other than to accompany the Explanatory Memorandum to be sent to SFGA security holders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of our opinion as to whether or not the proposed Scheme is in the best interests of SFGA security holders.

Any forward looking information prepared by SFGA and used as a basis for the preparation of this report reflects the judgement of SFGA management based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

We consent to the issue of this report in the form and context in which it is included in the Explanatory Memorandum to be sent to SFGA security holders.



Appendix B Sources of information

In preparing this report, we have had regard to the following sources of information:

- ▶ Annual reports of SFGA and IOOF for the years ending 30 June 2012 and 2013
- ▶ Half year interim reports for SFGA and IOOF for the six months ended 31 December 2013
- ▶ Management accounts for SFGA for the year ended 30 April 2014
- ▶ SFGA and IOOF results presentations for the interim and annual periods over 2011 to 2013
- ▶ Various announcements to the ASX and shareholder updates, including in relation to the announced Scheme
- ▶ Analyst reports prepared in respect of SFGA and IOOF
- ▶ Draft copies of the Explanatory Memorandum
- ▶ SFGA and IOOF company websites
- ▶ External information sources including IBISWorld, CapitalIQ, Reuters
- ▶ Mergerstat control premium study as at 31 March 2014
- ▶ Industry association websites including the Financial Planning Association of Australia
- ▶ Federal Government releases and publications pertaining to the financial advice sector including:
 - ▶ “Future of financial advice amendments released for public consultation”, 29 January 2014 released by the Assistant Treasurer, Senator the Hon Arthur Sinodinos AO
 - ▶ Corporations amendment (Streamlining of Future of Financial Advice) Bill 2014, Explanatory Memorandum, circulated by the authority of the Treasurer, the Hon J.B. Hockey MP in the House of Representatives
 - ▶ “Confirming our commitment to FoFA reforms”, media release dated 24 March 2014, Senator the Hon Mathias Cormann
 - ▶ Corporations Amendment (Streamlining of Future of Financial Advice) Bill, parliamentary review March 2014

In addition, we held discussions with various members of senior management of SFGA and IOOF.



Appendix C Valuation approaches

Most valuation approaches can be categorised under one or more of the following broad approaches:

- ▶ The income approach under which an asset is valued as the present value of the future net economic benefits that are expected to accrue to the owner from the use or sale of the asset.
- ▶ The market approach under which an asset is valued by reference to evidence (if any) of prices obtained in sales of interests in the asset that is the subject of the valuation, or by reference to the value of comparable assets related to some common variable such as earnings, cash flow or revenue.
- ▶ The cost approach under which an asset is valued by reference to its historical cost or replacement cost.

Each of these approaches is appropriate in certain circumstances. The decision as to which approach and methodology to utilise generally depends on the availability of appropriate information and type of business.

Income approach

The most common methodology within the income approach is the discounted cash flow (**DCF**) methodology. The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life. The utilisation of this methodology generally requires management to be able to provide long term cash flows for the company, asset or business.

Market approach

The main methodology within the market approach is the capitalisation of earnings methodology. This involves capitalising the earnings of a business at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- ▶ Estimation of normalised earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. The normalised earnings are generally based on net profit after tax, EBIT, EBITA or EBITDA.
- ▶ Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors. Multiples may be derived from quoted comparable trading companies and well as implied from recent acquisitions of similar companies.
- ▶ Earnings multiples applied to net profit after tax are known as price earnings multiples and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to influence the capital structure.
- ▶ An adjustment for financial debt, in the event that maintainable earnings are based on EBIT, EBITA or EBITDA.
- ▶ An assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.



This methodology is appropriate where a company or business is expected to generate a relatively stable record of earnings.

Cost approach

The main method within the cost approach is the net realisable value of assets methodology. This involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate for asset intensive businesses, or where a business does not generate an adequate return on its assets.



Appendix D SFGA Underlying NPAT reconciliation

The table below presents a detailed reconciliation of SFGA's reported NPAT to Underlying NPAT for the financial years ended 30 June 2011 to 2013 and the six months to 31 December 2013.

<i>Currency: \$ millions</i>	FY11A¹	FY12A	FY13A	1HY14A
FUMA composition (\$ billions)				
FUA	11.6	10.8	12.6	13.6
FUAdmin	9.8	9.3	10.1	9.9
Managed portfolios ²	-	-	0.6	0.9
FUM	3.7	4.4	5.0	5.8
FUMA	25.1	24.5	28.3	30.2
Net operating revenue	115.7	118.3	134.3	78.4
Net operating expenses	(76.5)	(76.4)	(86.2)	(50.0)
Operating EBITDA	39.2	41.9	48.1	28.4
Underlying NPAT	26.9	28.6	32.5	19.2
Acquisition related costs	(9.2)	(1.9)	(3.0)	(0.7)
One-off, non-operational items	(2.2)	(4.7)	(1.1)	1.5
Amortisation expense	(5.3)	(4.3)	(5.2)	(3.1)
Impairment of investment in associate	-	-	(0.9)	-
Notional funding cost of deferred consideration	(0.6)	(0.5)	(0.8)	(0.5)
Income tax effect of items above	2.5	3.4	2.6	0.8
Reported NPAT excl. RTFI reversal	12.1	20.6	24.1	17.2
Rights to future income tax impact	13.3	(9.3)	-	-
Reported NPAT	25.4	11.3	24.1	17.2

Source: FY12 SFGA investor presentation annual results released 30 August 2012

Note 1: FY11A reflects pro forma results in respect of the merger of Shadforth Financial Group and Snowball Group Limited

Note 2: In FY11A and FY12A, Managed portfolios was not presented separately, rather it was included within FUAdmin

Note 3: In FY11A, accounting fees were included within "Associates, licence and other fees" revenue

In relation to the table above, we note the following:

- ▶ Underlying NPAT reflects the reported after tax profits adjusted for amortisation expenses and non-recurring items.
- ▶ Acquisition related costs adjusted for include those expenses incurred in relation to completed acquisitions as well as other merger and acquisition activity. In FY13A and 1HY14A, the costs related to the recent acquisitions of Lachlan Partners and W Corp.
- ▶ One-off items adjusted for include integration costs, redundancy expenses, changes in the fair value of deferred consideration liabilities, rationalisation of properties including the write off of leasehold improvements, largely in connection with SFGA's completed acquisitions.
- ▶ Amortisation expenses relate to the amortisable intangible assets on the balance sheet as described in section 3.4 of this report.
- ▶ The adjustment for the investment impairment in FY13A related to the impairment of SFGA's investment in equity accounted associate, Duncan Dovico Holdings Pty Limited.
- ▶ Notional funding costs relate to the notional funding cost of deferred consideration liabilities



- The income tax adjustments reflect the tax impact associated with the aforementioned adjustments. The rights to future income (**RTFI**) adjustment relates to the retrospective reversal by the Federal Government of the RTFI legislation which had initially allowed for a tax benefit associated with particular contractual rights over the receipt of future income.



Appendix E IOOF Underlying NPAT reconciliation

The table below shows the reconciliation between IOOF's statutory NPAT and Underlying NPAT for the three years ended 30 June 2013, and for the half year ended 31 December 2013.

Currency: \$ millions	FY11A	FY12A	FY13A	1HY14A
Reported profit after tax	100.8	19.7	80.4	49.1
Less: Non-controlling interest	(1.3)	(0.3)	(0.7)	(1.0)
Statutory NPAT	99.5	19.4	79.8	48.2
Adjustments				
Amortisation of intangible assets	18.0	20.4	23.6	12.2
Sale of life policies	(0.2)	-	-	-
Impairment	-	9.2	4.6	-
Acquisition transition costs	-	3.1	0.8	-
Termination and retention incentive payments	1.5	3.7	6.5	1.5
Recognition of Plan B onerous lease contracts	-	-	3.0	-
Recognition of deferred taxes on intangible assets	-	62.7	-	-
Unwind of deferred taxes on intangible assets	(3.0)	(1.9)	(5.4)	(2.8)
Reinstatement of Perennial non-controlling interests	(3.9)	(2.4)	(1.0)	(0.6)
Income tax attributable	(0.4)	(1.2)	(3.1)	(0.5)
Fair value gain on investment in DKN	-	(9.6)	-	-
Recognition of previously uncertain tax position	-	(7.0)	-	-
Underlying NPAT pre-amortisation	111.5	96.3	108.8	58.0

Source: IOOF Annual reports, IOOF interim financial statements

In relation to the table above, we note the following:

- ▶ Underlying NPAT reflects the reported after tax profits adjusted for amortisation expenses and non-recurring items.
- ▶ Amortisation of intangible assets reflects an adjustment for the decline of intangible asset values presented on the balance sheet over their useful lives. The major amortisable intangible asset is customer relationships which have been recognised as a result of acquisitions undertaken by IOOF.
- ▶ Impairment adjustments relate to the goodwill which is tested for impairment annually, based on value-in-use calculations. The impairment of \$4.6 million in FY13A related to the Investment management segment.
- ▶ Acquisition transition costs relate to one-off payments to external advisers, which in FY13A related specifically to the acquisition of Plan B.
- ▶ Termination and retention incentive payments relate to costs associated with redundancy and the restructuring of incentives for employees of acquired entities to ensure long term efficiency gains.
- ▶ In FY13A, an adjustment was made in relation to the recognition of Plan B onerous contracts of \$3.0 million, reflecting the estimated future value of liabilities assumed in the acquisition of Plan B.
- ▶ Unwind of deferred taxes on intangible assets relates to the reduction in deferred tax liabilities recognised in prior periods, relating to intangible asset amortisation.
- ▶ Reinstatement of Perennial non-controlling interest adjustments reflects the share of profit allocated to shareholdings in certain subsidiaries of Perennial over which IOOF has a buy-back obligation.
- ▶ The income tax adjustments reflect the tax impact associated with the aforementioned items.



Appendix F Trading multiples and data

Comparable company trading multiples

The table summarises current trading multiples of listed companies operating in the financial planning and wealth advisory services sector as well as companies operating in the funds management industry as at 25 June 2014. These multiples are shown exclusive of any premium for control.

Company	Market cap (\$m)	Historical year end	FY13 PE multiple	LTM Dec13A PE multiple	FY14 PE multiple	FY15 PE multiple
Financial advice and wealth management						
SFGA ¹	536	30-Jun-13	16.5x	14.8x	13.9x	13.2x
Equity Trustees Limited	392	30-Jun-13	22.5x	20.5x	20.2x	18.3x
Countplus Limited	195	30-Jun-13	14.0x	14.1x	13.4x	12.5x
ClearView Wealth Limited	425	30-Jun-13	26.5x	25.6x	22.6x	20.2x
Fiducian Portfolio Services Limited	54	30-Jun-13	14.9x	14.2x	na	na
Low			14.0x	14.1x	13.4x	12.5x
Median			18.7x	17.4x	20.2x	18.3x
Mean			19.5x	18.6x	18.7x	17.0x
High			26.5x	25.6x	22.6x	20.2x
Funds Management						
IOOF ¹	1,886	30-Jun-13	17.3x	16.3x	15.9x	13.2x
Challenger Limited	3,840	30-Jun-13	12.4x	11.9x	11.7x	12.0x
Platinum Asset Management Limited	3,645	30-Jun-13	28.5x	21.0x	18.6x	17.3x
Perpetual Limited	2,071	30-Jun-13	25.8x	23.2x	17.9x	14.2x
BT Investment Management Limited	1,611	30-Sep-13	26.0x	14.5x	12.8x	14.1x
K2 Asset Management Limited	159	30-Jun-13	12.0x	6.8x	8.5x	12.7x
Magellan Financial Group Limited	1,747	30-Jun-13	36.0x	24.7x	21.6x	15.0x
HFA Holdings Limited ²	113	30-Jun-13	9.6x	7.0x	na	na
Treasury Group Limited	225	30-Jun-13	21.1x	18.3x	15.8x	14.5x
Low			9.6x	6.8x	8.5x	12.0x
Median			23.5x	16.4x	15.8x	14.2x
Mean			21.4x	15.9x	15.3x	14.3x
High			36.0x	24.7x	21.6x	17.3x

Source: EY analysis and CapitalIQ

na: not available

Note: all low, median, mean and high have been shown excluding the multiples of SFGA and IOOF

Note 1: Calculated based on share price as at 15 May 2014, one day prior to the announcement of the Scheme

Note 2: Multiple broker forecasts were not available for HFA and therefore consensus estimates could not be derived



FUMAS

The table below summarises the FUMAS and market capitalisation, exclusive of a premium for control, as a percentage of FUMAS for the comparable companies as at 25 June 2014:

Company	Market cap (\$m)	Underlying FY13A NPAT margin	FUMAS (\$m)	Market cap as a % of FUMAS	Date of FUMAS disclosure
Financial advice and wealth management					
SFGA ¹	536	24.2%	30,500	1.8%	31-Mar-14
Equity Trustees Limited	392	22.0%	37,132	1.1%	31-Dec-13
Countplus Limited	195	14.6%	10,000	1.9%	Current ²
ClearView Wealth Limited	425	15.8%	3,826	11.1%	31-Dec-13
Fiducian Portfolio Services Limited	54	16.3%	1,341	4.0%	06-May-14
Low		14.6%		1.1%	
Median		16.0%		3.0%	
Mean		17.2%		4.5%	
High		22.0%		11.1%	
Excluding outliers¹					
Low		14.6%		1.1%	
Median		16.0%		1.9%	
Mean		17.2%		2.3%	
High		22.0%		4.0%	
Funds Management					
IOOF ¹	1,886	15.9%	123,900	1.5%	31-Mar-14
Challenger Limited	3,840	19.4%	49,502	7.8%	31-Mar-14
Platinum Asset Management Limited	3,645	55.1%	22,864	15.9%	30-Apr-14
Perpetual Limited	2,071	20.2%	31,000	6.7%	31-Mar-14
BT Investment Management Limited	1,611	23.8%	62,100	2.6%	31-Mar-14
K2 Asset Management Limited	159	36.3%	880	18.0%	01-May-14
Magellan Financial Group Limited	1,747	53.3%	22,930	7.6%	30-Apr-14
HFA Holdings Limited	113	18.3%	7,763	1.5%	31-Mar-14
Treasury Group Limited	225	55.0%	19,180	1.2%	31-Mar-14
Low		18.3%		1.2%	
Median		30.0%		7.1%	
Mean		35.2%		7.7%	
High		55.1%		18.0%	

Source: EY analysis and CapitalIQ

na: not available

Note 1: Calculated based on share price as at 15 May 2014, one day prior to the announcement of the Scheme

Note 2: Excludes ClearView Wealth Limited

Note 3: Sourced from company website



Description of comparable companies

A brief overview of the comparable companies is provided below:

Financial advice and wealth management

Equity Trustees Limited

- Equity Trustees Limited (**Equity Trustees**) is a financial services company that provides a range of services, including trustee and estate management planning in addition to other wealth management and advisory services such as portfolio management, managed funds, superannuation, private wealth services, placement advice and philanthropy. Equity Trustees had \$37 billion of funds under management, advice and administration as at 31 December 2013.

Countplus Limited

- Countplus Limited (**Countplus**) is a provider of accounting, advisory and financial planning services. Countplus comprises a network of 21 businesses operating from 41 office locations spread across Australia. Countplus currently has approximately \$10 billion of funds under advice.

ClearView Wealth Limited

- ClearView Wealth Limited (**ClearView**) is a financial services provider, operating through three business segments, being, life insurance, wealth management and financial advice. Approximately 54% of FY13 revenue was derived from the wealth management segment. As at 31 December 2013, ClearView had approximately \$4 billion of funds under management and advice.

Fiducian Portfolio Services Limited

- Fiducian Portfolio Services Limited (**Fiducian**) is a financial services provider. The services provided by Fiducian include funds management, financial planning, and portfolio administration. Fiducian had approximately \$1.3 billion of funds under management as at May 2014.

Funds management companies

Challenger Limited

- Challenger Limited (**Challenger**) is an investment manager with approximately \$49.5 billion in assets under management. Challenger operates through two divisions, a funds management division and a life insurance division. The funds management division comprises Fidante Partners and Challenger Investment Partners. Fidante Partners teams with boutique fund managers, providing investors access to the different products and asset classes offered by these boutique funds.

Platinum Investment Management Limited

- Platinum Investment Management Limited (**Platinum**) is an ASX listed funds manager. Platinum's product offering consists of global, regional and sector products. Platinum also comprises Platinum Capital Limited, an ASX listed closed end investment company. As at 30 April 2014, Platinum had approximately \$23 billion of funds under management.

Perpetual Limited

- Perpetual Limited (**Perpetual**) is a diversified financial services company providing investment management, wealth advisory and corporate fiduciary services. Perpetual had \$31 billion of funds under management as at 31 March 2014.

BT Investment Management Limited

- BT Investment Management Limited (**BT**) is an ASX listed funds manager with over \$62 billion of funds under management as at 31 March 2014. BT caters to both the retail and institutional segments. BT's portfolio as at 31 March 2014 consisted of international equities, Australian and diversified property, Australian equities and Australia cash and fixed income assets.

**K2 Asset Management Holdings Ltd**

- ▶ K2 Asset Management Holdings Ltd. (**K2**) is an equity fund manager with approximately \$880 million of funds under management as at 1 May 2014. K2's funds are focused on Australian, Asian and international equities.

Magellan Financial Group Limited

- ▶ Magellan Financial Group Limited (**Magellan**) is a funds management business focused on global equities and global infrastructure strategies for high net worth, retail and institutional investors. As at 30 April 2014, Magellan had approximately \$23 billion of funds under management.

HFA Holdings Limited

- ▶ HFA Holdings Limited (**HFA**) consists of the US based investment manager, Lighthouse Investment Partners, LLC (**Lighthouse**) and Australian based Certitude Global Investments Limited. Lighthouse is a fund of funds manager. HFA manages approximately \$8 billion of funds.

Treasury Group Limited

- ▶ Treasury Group Limited (**Treasury**) is a specialist investment manager. The company invests in boutique funds management companies. Treasury had approximately \$19 billion of funds under management as at 31 March 2014.



Appendix G Recent transactions

The table below summarises the multiples implied by recent transactions in the financial advice, wealth management, funds management and diversified financials sectors. All transactions involved the acquisition of a 100% interest, except as otherwise noted.

Recent transactions

Ann- ounce- ment date	Target	Acquirer	Implied 100% equity value	FUMA \$M	Purchase price as a % of FUMA	\$m NPAT (H)	PE (H)
Financial advice and wealth management							
Jan-14	Centric Wealth Advisers Limited	Financial Index Australia, Kohlberg Kravis Roberts & Co.	130	4,100	3.2%	na	na
Feb-13	Lachlan Partners Pty Ltd	SFGA	31	606	5.1%	na	na
Jul-12	Plan B Group Holdings	IOOF	47	2,060	2.3%	3.2	12.0x
Jul-12	ClearView Wealth Limited	Crescent Capital Partners Management Pty Limited ¹	245	2,900	8.4%	19.2	12.8x
Aug-11	Count Financial Limited	Capital 121 Pty Limited (Commonwealth Bank of Australia)	372	9,860	3.8%	25.6	14.6x
Jun-11	DKN Financial Group Limited	IOOF	96	8,020	1.2%	7.3	12.7x
May-11	SFGHL	Snowball Group Limited	178	8,600	2.1%	17.0	10.3x
Funds management							
Nov-10	Tyndall Investment Management (Australia) Limited, Tyndall Investment Management New Zealand Limited	Nikko Asset Management Co Ltd	129	25,000	0.5%	10.0	12.6x
Diversified financials							
May-13	The Trust Company Limited	Perpetual Limited	278	168,500	0.2%	12.0	23.1x
Dec-10	Tower Australia Group Limited ²	The Dai-ichi Life Insurance Company Limited	1,679	2,750	61.0%	87.0	19.2x
Nov-10	AXA Asia Pacific Holdings Limited	AMP Limited	13,291	77,000	17.3%	679.0	19.6x
Jun-10	MBF Life and ClearView Retirement Solutions	MMC Contrarian Limited	195	2,150	9.1%	13.0	14.9x

Source: Company announcements, websites, media releases, annual reports, CapitalIQ

H: last financial year earnings

Note 1: Acquired a 79.7% interest

Note 2: Acquired a 71.0% interest



Description of transactions

A brief overview of the transactions is provided below:

Financial planning and wealth management

- ▶ On 16 January 2014, Financial Index announced that it acquired Centric Wealth for a consideration of \$130 million comprised of \$0.89 per share contributed by Financial Index and acquisition funding provided by Kohlberg Kravis Roberts & Co (**KKR**). As part of the transaction, KKR took a one third stake in Centric Wealth. Centric Wealth is a provider of wealth management services including financial planning, strategy, employee benefits, insurance as well as business advisory services.
- ▶ On 22 February 2013, SFGA announced that it had acquired Lachlan Partners Pty Ltd, a provider of accounting, tax, business advisory and financial advice services. The total consideration paid for Lachlan Partners was \$36 million.
- ▶ On 13 July 2012, IOOF announced the acquisition of Plan B Group Holdings Limited. Plan B is a provider of wealth management and administration services in Australia. The consideration paid for Plan B was \$47 million.
- ▶ On 12 July 2012, ClearView Wealth Limited announced that it had received a proposal from Crescent Capital Partners Management Limited (**Crescent Capital**). By 8 October 2012, Crescent Capital acquired 79.7% of ClearView for consideration of \$195.2 million (approximately \$245 million on a pro rata 100% basis). ClearView is a provider of life insurance, wealth management, and financial advisory solutions in Australia. Subsequent to this acquisition, Crescent Capital has sold down a proportion of its holding such that it currently holds an interest of 56%. The current free float of ClearView Wealth Limited is 31%.
- ▶ On 30 August 2011, Capital Pty Ltd (a subsidiary of Commonwealth Bank Limited) entered into a scheme of arrangement for the acquisition of ASX listed Count Financial Limited (**Count Financial**). Count Financial is a financial planning and advisory firm operating in Australia. The consideration paid for Count Financial was \$372 million.
- ▶ On 14 June 2011, DKN Financial Group Limited (**DKN**) announced an initial proposal had been made by IOOF to acquire all of the shares in DKN it did not already own. DKN provides financial services solutions to financial planning practices in Australia. The purchase consideration for DKN was \$96 million.
- ▶ On 26 May 2011, Snowball Group Limited, the listed Australian provider of integrated financial planning, superannuation, investment, insurance, and accounting services announced the acquisition of Shadforth Financial Group Holdings Limited, a privately owned financial advisory firm for a consideration of \$178 million. Snowball was subsequently renamed SFG Australia Limited.

Funds management

- ▶ On 16 November 2010, Nikko Asset Management Co.Ltd, a Japanese investment manager, acquired Tyndall Investment Management Australia Ltd and Tyndall Investment Management New Zealand Limited from Suncorp Metway, for a consideration of up to \$128.5 million. This included \$80 million cash, \$5 million access fee, \$30 million option payment in three years' time and \$13.5 million for employee equity interests.

Diversified financials

- ▶ On 7 May 2013, The Trust Company Limited announced that it had entered into a scheme of arrangement with Perpetual Limited. The Trust Company was a trustee company that offered a wide range of services including trustee services, financial planning, estate administration and planning, superannuation compliance, responsible entity services and wealth management services. The total consideration paid by Perpetual was \$278 million.



- ▶ On 29 December 2010, Tower Australia Group Limited (**Tower Australia**) announced that it had entered into a Scheme Implementation Deed with The Dai-ichi Life Insurance Company Limited (**Dai-ichi**). Dai-ichi acquired a 71.04% stake in Tower Australia, a life insurance specialist for a consideration of \$1,192 million (implying a consideration of \$1,679 million on a pro rata 100% basis).
- ▶ On 15 November 2010, AMP announced the acquisition of the Australia and New Zealand businesses of AXA Asia Pacific Holdings Limited (**AXA APH**). The transaction was conducted via a scheme of arrangement. The transaction valued AXA APH at \$13,291 million with the implied multiple noted above related only to the Australian and New Zealand business acquired. AXA APH is an insurance and wealth management company and a subsidiary of the listed French financial services group, AXA SA.
- ▶ On 26 March 2010, MMC Contrarian Limited, the listed Australian funds management company, announced that it would acquire ClearView Retirement Solutions, an Australia based financial services company, and MBF Life, a life insurance company, from BUPA Australia Health Pty Ltd, the Australian subsidiary of UK based health insurance company BUPA Group, for a consideration of \$195 million.



Appendix H Dividend analysis

The table below summarises the dividend payout ratios and yields of SFGA, IOOF and their peers.

Dividend payout ratio and yield analysis as at 25 June 2014

As at 25 June 2014	Payout ratio				Dividend Yield				Average FY11 - FY13
	FY10	FY11	FY12	FY13	FY10	FY11	FY12	FY13	
SFGA ¹	79.9%	65.8%	50.9%	58.4%	4.5%	3.4%	2.7%	3.6%	3.2%
IOOF ¹	82.5%	88.8%	88.9%	89.6%	4.3%	5.3%	4.6%	5.2%	5.0%
Wealth management and financial planning									
Equity Trustees Ltd	113.9%	103.1%	87.8%	83.9%	5.4%	4.9%	4.1%	4.5%	4.5%
Countplus Limited	0.0%	53.7%	95.4%	96.0%	0.0%	3.4%	6.9%	6.9%	5.7%
ClearView Wealth Limited	n/m	38.2%	38.3%	46.0%	0.0%	2.3%	2.3%	2.3%	2.3%
Fiducian Portfolio Services Limited	65.8%	71.7%	65.5%	63.1%	4.9%	5.7%	2.9%	4.0%	4.2%
Low	0.0%	38.2%	38.3%	46.0%	0.0%	2.3%	2.3%	2.3%	2.3%
Mean	59.9%	66.7%	71.7%	72.3%	2.6%	4.1%	4.0%	4.4%	4.2%
Median	65.8%	62.7%	76.7%	73.5%	2.4%	4.2%	3.5%	4.3%	4.4%
High	113.9%	103.1%	95.4%	96.0%	5.4%	5.7%	6.9%	6.9%	5.7%
Funds management									
Challenger Ltd	31.9%	31.9%	31.3%	34.1%	1.9%	2.2%	2.4%	2.7%	2.4%
Platinum Asset Management Limited	90.7%	93.1%	93.2%	96.8%	3.5%	4.0%	3.3%	3.5%	3.6%
Perpetual Limited	105.7%	97.0%	48.5%	63.0%	4.4%	3.9%	1.9%	2.8%	2.9%
BT Investment Management Limited	80.3%	85.6%	85.6%	84.5%	2.4%	2.5%	1.9%	2.8%	2.4%
K2 Asset Management	156.8%	107.4%	0.0%	100.1%	6.6%	10.7%	0.0%	8.8%	6.5%
Magellan Financial Group	0.0%	39.9%	50.3%	67.7%	0.0%	0.1%	0.4%	2.0%	0.8%
HFA Holdings	0.0%	58.3%	112.5%	100.7%	0.0%	5.6%	5.6%	6.7%	6.0%
Treasury Group Ltd	21.3%	27.0%	34.6%	42.4%	2.7%	3.5%	3.5%	4.1%	3.7%
Low	0.0%	27.0%	0.0%	34.1%	0.0%	0.1%	0.0%	2.0%	0.8%
Mean	60.8%	67.5%	57.0%	73.7%	2.7%	4.1%	2.4%	4.2%	3.5%
Median	56.1%	72.0%	49.4%	76.1%	2.5%	3.7%	2.2%	3.1%	3.2%
High	156.8%	107.4%	112.5%	100.7%	6.6%	10.7%	5.6%	8.8%	6.5%

Source: Capital IQ, Morningstar DatAnalysis

Note 1: Calculated based on share price as at 15 May 2014, one day prior to the announcement of the Scheme

In relation to the above table, we make the following comments:

- ▶ The payout ratios have been calculated as annual dividends per share over the relevant financial year as a proportion of earnings per share on a diluted basis.
- ▶ Earnings for each company have been calculated based on normalised after tax earnings adjusted to exclude the impact of intangible asset amortisation expenses using publicly available information. Earnings per share (**EPS**) was calculated by dividing earnings by the weighted average number of shares outstanding used for basic EPS reporting as noted in each company's annual reports.
- ▶ Certain companies reference a target payout ratio, including Equity Trustees Limited (70% - 90% of NPAT), ClearView Wealth Limited (20% - 40% of underlying profit) and BT Investment Management Limited (80% - 90% of cash NPAT).



- ▶ Where losses were reported or no dividends were paid, these have been marked as not meaningful ("n/m") or nil ("0.0%") in the table.
- ▶ ClearView Wealth Limited paid a special cash dividend of 2.2 cents per share in FY12. For the purposes of this analysis, this special dividend was excluded.
- ▶ Where dividends have been paid, all of the companies, including SFGA and IOOF, shown in the table above have paid fully franked dividends over the historical period shown with the exception of:
 - ▶ Challenger Limited – 0% franked (with the last franked dividend paid having been at 60% in FY08)
 - ▶ BT Investment Management Limited – 50% franked dividend paid in FY13, prior to which all had been fully franked. We note that though not presented above, the company's FY14 interim dividend was 35% franked
 - ▶ K2 Asset Management – 80% franked dividend paid in FY11, with all other dividends having been fully franked



Appendix I Glossary

Term	Meaning
1HY14A	Six months ended 31 December 2013
A\$	Australian dollars
Act	Corporations Act 2001
AFSL	Australian Financial Services Licence
AIFRS	Australian International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
B2B	Business to business
Bailey Holdings	SFGA ordinary shares held by Kevin Christopher Bailey, Grace Genevieve Bailey and their associates
CAGR	Compound annual growth rate
Call Option Deed	Call options deeds entered into by several SFGA Shareholders with IOOF in connection with the proposed Scheme ⁶⁹
Combined Group	SFGA and IOOF together, assuming the Scheme is approved and implemented
Corporations Act	The Corporations Act, 2001 (Cth)
Corporations Regulations	Corporations Regulations, 2001
Countplus	Countplus Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
Equity Trustees	Equity Trustees Limited
Ernst & Young Transaction Advisory Services, "we" or "us"	Ernst & Young Transaction Advisory Services Limited
Explanatory Memorandum	Accompanying booklet being provided to SFG Shareholders
FoFA	Future of financial advice
FSG	Financial Services Guide
FUA	Funds under advice
FUAdmin	Funds under administration
FUM	Funds under management
FUMA	Collective term for funds under advice, administration, management and, in the case of SFGA, managed portfolios
FUMAS	Collective term for funds under advice, administration, management and supervision
FYXX	Fiscal year ended 30 June 20XX
GFC	Global financial crisis
IDPS	Investor Directed Portfolio Services
Independent Expert's Report	This report
Industry	Australian financial planning and investment advice industry
IOOF	IOOF Holdings Limited
Maximum Cash Consideration	\$100 million in aggregate
Mosaic	Mosaic Portfolio Advisers Limited
MP	Managed portfolios
NPAT	Net profit after tax
NSW	New South Wales
PE	Price to earnings
RE	Responsible entity
RG 111	Regulatory Guide 111 <i>Content of expert reports</i>
Ripoll Inquiry	Parliamentary Joint Committee on Corporations and Financial Services' inquiry
RSE	Registrable superannuation entity
RTFI	Rights to future income
Scheme	Scheme of arrangement
Scheme Consideration	Scrip and cash offer by IOOF for the acquisition of SFGA Shares
SFGA	SFG Australia Limited
SFGA Shares	Ordinary shares held in SFGA
SFGA Shareholders	Holders of SFGA Shares
SFGHL	Shadforth Financial Group Holdings Limited
Shadforth	Shadforth Financial Group, financial advice business of SFGA
Share Consideration	0.104 IOOF shares for each SFGA Share
Underlying NPAT	After tax profits adjusted for amortisation expenses and non-recurring items
VWAP	Volume weighted average price

⁶⁹ These include SFGA Directors who are also Shareholders as well as Kevin Bailey, Grace Bailey and their associates



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PART 2 – FINANCIAL SERVICES GUIDE

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

27 June 2014

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

SFG Australia Limited
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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585
AFS 00290522



5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$170,500 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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Investigating Accountant's Report

B

**KPMG Transaction Services**

A division of KPMG Financial Advisory Services
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The Directors
IOOF Holdings Limited
Level 6, 161 Collins Street
Melbourne, Victoria 3000

27 June 2014

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by IOOF Holdings Limited ("IOOF") to prepare this report for inclusion in the Scheme Booklet to be dated 27 June 2014 ("Scheme Booklet"), and to be issued by SFG Australia Limited ("SFG"), in connection with the proposed acquisition of all of the shares in SFG by IOOF (the "Transaction").

Expressions defined in the Scheme Booklet have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in accordance with ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* in relation to the compilation pro forma historical financial information described below and disclosed in the Scheme Booklet.

The pro forma historical financial information is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

The pro forma historical financial information has been derived from the historical financial information of IOOF and SFG, after adjusting for the effects of pro forma adjustments described in section 6.4 of the Scheme Booklet. The pro forma financial information consists of:

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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- the IOOF Combined Groups's pro forma historical Statement of Financial Position as at 31 December 2013;
- the IOOF Combined Group's pro forma historical Statements of Financial Performance for the 12 months ended 30 June 2013 and 6 months ended 31 December 2013; and
- related notes as set out in section 6.4 of the Scheme Booklet issued by SFG.

(collectively the "Pro Forma Historical Financial Information").

The basis on which IOOF has compiled the Pro Forma Historical Financial Information is specified in section 6.3 of the Scheme Booklet.

The Pro Forma Historical Financial Information has been compiled by IOOF to illustrate the impact of the Transaction on IOOF's financial position as at 31 December 2013 and IOOF's financial performance for the 12 months ended 30 June 2013 and 6 months ended 31 December 2013.

As part of this process, information about IOOF's and SFG's financial position and financial performance has been extracted by IOOF from IOOF's financial statements for the 12 months ended 30 June 2013 and 6 months ended 31 December 2013 and from SFG's financial statements for the 12 months ended 30 June 2013 and 6 months ended 31 December 2013.

The financial statements of IOOF for the year ended 30 June 2013 were audited, and for the half year ended 31 December 2013 reviewed by KPMG, IOOF's external auditor in accordance with Australian Auditing Standards. The audit and review opinions issued to the members of IOOF relating to those financial statements were unqualified.

The financial statements of SFG for the year ended 30 June 2013 were audited, and for the half year ended 31 December 2013 reviewed by SFG's external auditor in accordance with Australian Auditing Standards. The audit and review opinions issued to the members of SFG relating to those financial statements were unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Pro Forma Historical Financial Information has not been properly compiled on the basis stated in section 6.3 of the Scheme Booklet.

We have conducted our procedures in accordance with the Standard on Assurance Engagements ASAE 3420 *Assurance Engagements To Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (ASAE 3420).

Our limited assurance engagement has involved performing procedures to assess whether the applicable criteria used by IOOF in the compilation of the Pro Forma Historical Financial Information provides a reasonable basis for presenting the significant effects directly attributable to the Transaction, and that the:

- related pro forma adjustments give appropriate effect to those criteria; and

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- resultant Pro Forma Historical Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The engagement has also involved evaluating the overall presentation of the Pro Forma Historical Financial Information.

The procedures we performed were based on our professional judgement and included:

- consideration of whether the unadjusted historical financial information, which forms the basis for the Pro Forma Historical Financial Information, has been extracted from an appropriate source;
- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the historical financial information of IOOF from its audited financial statements for the year ended 30 June 2013 and reviewed financial statements for the half year ended 31 December 2013, and those dealing with the extraction of historical financial information of SFG from its audited financial statements for the year ended 30 June 2013 and reviewed financial statements for the half year ended 31 December 2013;
- consideration of the pro forma adjustments described in the Scheme Booklet;
- enquiry of directors, management personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information has been properly compiled on the basis stated in section 6.3 of the Scheme Booklet.

We have not performed an audit or review of the historical financial information used in compiling the Pro Forma Historical Financial Information, or of the Pro Forma Historical Financial Information itself. Also, our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used in compiling the Pro Forma Historical Financial Information.

The purpose of the compilation of the Pro Forma Historical Financial Information being included in the Scheme Booklet is solely to illustrate the impact of the Transaction on the

IOOF Holdings Limited
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27 June 2014

unadjusted financial information of IOOF. Accordingly, we do not provide any assurance that the actual outcome of the Transaction would have been as presented.

Directors' responsibilities

The directors of IOOF are responsible for the preparation of:

- the IOOF historical financial information;
- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments, and for properly compiling the Pro Forma Historical Information of the basis stated in section 6.3 of the Scheme Booklet.

The directors of SFG are responsible for the preparation and presentation of SFG historical financial information.

Together, the IOOF and SFG directors' responsibilities include establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information is not properly compiled on the basis stated in section 6.3 of the Scheme Booklet.

We have not audited or reviewed the historical financial information extracted from the financial statements of SFG used in compiling the Pro Forma Historical Financial information, or of the Pro Forma Historical Financial Information itself and we do not express any opinion, or make any statement of negative assurance, as to whether the Pro Forma Historical Financial Information is prepared or presented fairly, in all material respects, in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and IOOF's accounting policies.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of IOOF and from time to time, KPMG also provides IOOF with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Scheme Booklet, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information

***IOOF Holdings Limited**
Limited Assurance Investigating Accountant's Report and
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contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 6.3 of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Scheme Booklet in the form and context in which it is so included, but has not authorised the issue of the Scheme Booklet. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Scheme Booklet.

Yours faithfully



Craig Mennie
Authorised Representative

**KPMG Transaction Services**

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Financial Services Guide**Dated 27 June 2014*****What is a Financial Services Guide (FSG)?***

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ('**KPMG Transaction Services**'), and Craig Mennie as an authorised representative of KPMG Transaction Services, authorised representative number 404257 (**Authorised Representative**).

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by IOOF Holdings Limited (IOOF) to provide general financial product advice in the form of a Report to be included in the Scheme Booklet (Document) issued by SFG Australia Limited (SFG) in relation to the proposed acquisition by IOOF of all of the shares in SFG via a Scheme of Arrangement (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a

copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the IOOF.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the IOOF, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, IOOF has agreed to pay KPMG Transaction Services approximately \$115,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in

connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to IOOF and for which professional fees are received. Over financial years 2012 and 2013, professional fees of \$4.2 million and \$4.1 million have been received from IOOF, as disclosed in the IOOF annual report for each financial year. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399

Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory
Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Craig Mennie
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

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Scheme Implementation Agreement



CLAYTON UTZ

Scheme implementation agreement

SFG Australia Limited
SFG

IOOF Holdings Limited
IOOF

Clayton Utz
Lawyers
Level 15 1 Bligh Street
Sydney NSW 2000
GPO Box 9806
Sydney NSW 2001
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Our reference 13530/14604/80147410

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Scheme implementation agreement dated

Parties

SFG Australia Limited ACN 006 490 259 of Level 18, 50 Bridge Street, Sydney NSW 2000 (**SFG**)

IOOF Holdings Limited ACN 100 103 722 of Level 6, 161 Collins Street, Melbourne VIC 3000 (**IOOF**)

Background

- A. IOOF proposes that it (or a wholly owned Subsidiary of IOOF) will acquire all of the SFG Shares pursuant to a scheme of arrangement under section 411 of the Corporations Act between SFG and the holders of SFG Shares.
- B. SFG has agreed to propose the Scheme and issue the Explanatory Memorandum at the request of IOOF, and SFG and IOOF have agreed to implement the Scheme on the terms and conditions of this agreement.

Operative provisions

1. Definitions and interpretation

1.1 Definitions

In this agreement:

Adjusted Number means the number determined in accordance with the following formula:

$$\text{Adjusted Number} = 0.104 \times \left(1 + \frac{D}{\text{IOOF VWAP}} \right)$$

Where:

D is the cash amount per IOOF Share (expressed in dollars and excluding, for the avoidance of doubt, any franking credit) of any dividend declared or paid by IOOF the record date for which occurs after the date of this agreement and before the Implementation Date.

Announcement means an announcement by SFG in the form provided to IOOF, and in a form acceptable to IOOF (acting reasonably), prior to signing of this agreement.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in section 12 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it known as the Australian Securities Exchange.

Beneficiary means a present or former director or officer of the SFG Group in respect of whom the Policy applies.

Break Fee means \$6,000,000.

Business Day means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Melbourne and Sydney.

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Competing Proposal means any proposal, agreement, arrangement or transaction, which, if entered into or completed, would mean a Third Party (either alone or together with any Associate) would:

- (a) directly or indirectly acquire a Relevant Interest in, or have the right to acquire, a legal, beneficial or economic interest in, or control of, more than 20% of SFG Shares;
- (b) acquire Control of SFG;
- (c) otherwise acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an exclusive economic interest in all or a material part of SFG's business or assets or the business or assets of the SFG Group;
- (d) otherwise acquire (whether directly or indirectly) SFG; or
- (e) enter into any agreement, arrangement or understanding requiring SFG to abandon, or otherwise fail to proceed with, the Transaction,

whether by way of takeover bid, scheme of arrangement, security holder approved acquisition, capital reduction or buy back, sale or purchase of shares, securities or assets, global assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), or other transaction or arrangement.

Condition means each condition specified in clause 3.1.

Confidentiality Deed means the Confidentiality Deed between IOOF and SFG dated on or about 16 September 2013.

Control has the meaning given in section 50AA of the Corporations Act.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court, New South Wales registry or such other court of competent jurisdiction as SFG and IOOF agree in writing.

Deed Poll means a deed poll to be executed by IOOF in favour of the Scheme Shareholders, substantially in the form set out in Annexure B or in such other form as SFG and IOOF agree in writing.

Effective means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective

Eligible Scheme Shareholder means a Scheme Shareholder other than an Ineligible Overseas Shareholder.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date means the latest to occur of:

- (a) 31 December 2014; and
- (b) such other date agreed in writing between SFG and IOOF.

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Exclusivity Period means the period commencing on the date of this agreement and ending on the earliest of:

- (a) the End Date;
- (b) the date this agreement is terminated in accordance with its terms; and
- (c) the Implementation Date.

Explanatory Memorandum means the explanatory memorandum to be prepared by SFG pursuant to section 412 of the Corporations Act in respect of the Scheme in accordance with the terms of this agreement and to be dispatched to the SFG Shareholders.

First Court Date means the first day of the hearing of an application made to the Court for an order pursuant to section 411(1) of the Corporations Act convening the Scheme Meeting or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Implementation Date means the date which is 3 Business Days after the Record Date or such other date as SFG and IOOF agree in writing.

Independent Expert means the independent expert to be engaged by SFG to express an opinion on whether the Scheme is in the best interests of the SFG Shareholders.

Independent Expert's Report means the report from the Independent Expert in respect of the Scheme.

Ineligible Overseas Shareholder means a Scheme Shareholder whose address shown in the SFG Share Register on the Record Date is a place outside Australia and its external territories, unless IOOF determines that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New IOOF Shares when the Scheme becomes Effective.

Insolvency Event means in relation to an entity:

- (a) the entity resolving that it be wound up or the making of an application or order for the winding up or dissolution of the entity, other than where the application or order (as the case may be) is set aside within 14 days;
- (b) a liquidator or provisional liquidator of the entity being appointed;
- (c) a court making an order for the winding up of the entity;
- (d) an administrator of the entity being appointed;
- (e) the entity ceasing, or threatening to cease to, carry on the business that it conducts as at the date of this agreement;
- (f) the entity being or becoming unable to pay its debts when they fall due;
- (g) the entity executing a deed of company arrangement; or
- (h) a receiver, or a receiver and manager, being appointed in relation to the entity, or a substantial part, of the property of the entity.

Investigating Accountant means an accounting firm to be appointed by IOOF to prepare the Investigating Accountant's Report.

Investigating Accountant's Report means the report from the Investigating Accountant in relation to the financial information regarding the merged group to be included in the Explanatory Memorandum.

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IOOF Board means the board of directors of IOOF.

IOOF Due Diligence Material means the written information disclosed by or on behalf of IOOF and its Subsidiaries, including:

- (a) in management presentations and interviews and management discussions with directors and employees of SFG;
- (b) in written responses to requests for information; and
- (c) in written correspondence between IOOF's advisers and SFG's advisers,

to SFG and its advisers prior to the date of this agreement.

IOOF FY14 Dividend means a dividend, fully franked or otherwise, for each IOOF Share to be declared by IOOF in respect of the financial year ended 30 June 2014.

IOOF Group means IOOF and each of its Subsidiaries.

IOOF Indemnified Parties means IOOF and its Related Bodies Corporate and their respective directors, officers and employees.

IOOF Information means:

- (a) all information regarding IOOF and its Related Bodies Corporate and the Scheme Consideration that is required by the Corporations Act and the Regulatory Guides to be included in the Explanatory Memorandum including all the information that would be required under sections 636(1)(c), (f), (h), (i), (k), (l) and (m) of the Corporations Act to be included in a bidder's statement if IOOF were offering the Scheme Consideration as consideration under a takeover bid;
- (b) the information to be incorporated in the Explanatory Memorandum with respect to the merged company, including pro forma financial information except to the extent that it comprises information provided by SFG to IOOF for the purposes of IOOF preparing the information with respect to the merged company; and
- (c) any other information that the parties agree is IOOF Information for the purposes of this agreement, but does not include the SFG Information, the Independent Expert's Report and the Investigating Accountant's Report.

IOOF Material Adverse Change means Specified Events which, individually or when aggregated with all such events, have or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the IOOF Group, and which would include:

- (a) the value of total consolidated Net Assets of the IOOF Group being reduced, or which could reasonably be expected to be reduced, by \$123,300,000 or more; or
- (b) the Underlying NPAT of the IOOF Group being reduced or which could reasonably be expected to be reduced, by \$17,400,000 or more per annum on a recurring basis,

other than an event, occurrence or matter:

- (c) contemplated or required to be done or procured by IOOF pursuant to the Transaction Documents;
- (d) to the extent that it was fairly disclosed in the IOOF Due Diligence Materials;

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- (e) to the extent that it was fairly disclosed in documents that were publicly available prior to the date of this agreement from public filings of IOOF with ASX;
- (f) comprising a change to legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Regulatory Authority (whether or not retrospective in effect), including in relation to Tax; or
- (g) relating to any material adverse change or disruption to the existing financial markets or economic conditions of Australia, the United Kingdom, the United States of America, Hong Kong or China.

IOOF Material Subsidiary means any Subsidiary material to the IOOF Group as a whole or any operating Subsidiary.

IOOF Option means an option to acquire an IOOF Share.

IOOF Prescribed Occurrence means the occurrence of, or agreement to do, any of the following events:

- (a) IOOF converts all or any of its securities into a larger or smaller number of securities;
- (b) IOOF or another member of the IOOF Group (other than a wholly-owned Subsidiary of IOOF) resolves to reduce its capital in any way or resolves to re-classify, combine, split, redeem or re-purchase directly or indirectly any of its shares, other than as contemplated in paragraph (f) below;
- (c) IOOF or another member of the IOOF Group (other than a wholly-owned Subsidiary of IOOF):
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) any member of the IOOF Group issues shares, or grants an option over its shares or agrees to make such an issue or grant such an option;
- (e) any member of the IOOF Group issues, or agrees to issue, convertible notes or any other security convertible into shares or debt securities;
- (f) any member of the IOOF Group agrees to pay, declares or pays a dividend or any other form of distribution of profits or return of capital to its members, other than:
 - (i) the declaration and payment by IOOF of the IOOF FY14 Dividend; or
 - (ii) the declaration and payment by a member of the IOOF Group of a dividend where the recipient of that dividend is IOOF or a wholly-owned Subsidiary of IOOF;
- (g) any member of the IOOF Group disposes of the whole, or a substantial part, of its business or property;
- (h) any member of the IOOF Group creates any Encumbrance over, or declares itself the trustee of, the whole, or a substantial part, of its business or property;
- (i) an Insolvency Event occurs in relation to IOOF or any IOOF Material Subsidiary;
- (j) any member of the IOOF Group acquires or disposes of, or agrees to acquire or dispose of, any assets, business or shares outside of the ordinary course of

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business of the IOOF Group that would require the approval of, or would customarily be referred to, the IOOF Board under existing delegations and practices;

- (k) loss or revocation of any material licence or authorisation held by a member of the IOOF Group which is necessary to enable IOOF to conduct its business;
- (l) any event outside the ordinary course of business of IOOF in respect of:
 - (i) director or executive remuneration or payments to the extent they are material;
 - (ii) capital expenditure by any member of the IOOF Group to the extent it is material; and
 - (iii) any reconstruction or reorganisation of the IOOF Group,

other than an event:

- (m) contemplated or required to be undertaken or procured by the IOOF Group pursuant to the Transaction Documents;
- (n) to which SFG has provided its prior written consent; or
- (o) fairly disclosed in the IOOF Due Diligence Material or any announcement to the ASX made by IOOF regarding the IOOF Group prior to the parties entering into this agreement, except to the extent the parties otherwise agree.

IOOF Share means fully paid ordinary shares in the capital of IOOF.

IOOF VWAP means:

- (a) subject to paragraph (b) below, the average (calculated to 2 decimal places) of the volume weighted average share prices for IOOF Shares traded on ASX (excluding any and all special crossings, crossings made prior to the commencement of normal trading, crossings made during the closing phase or the after hours adjust phase, equity combinations, overseas trades and overnight crossings or trades pursuant to the exercise of options over IOOF Shares, and any other trades which SFG and IOOF reasonably agree to exclude on the basis that they are not representative of the general price at which IOOF Shares are trading on ASX in the context of trading in IOOF Shares on any day on which the trades took place) on each of the Trading Days comprising the IOOF VWAP Period; and
- (b) if after the date of this agreement but before the Implementation Date a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, then, for the purpose of calculating the IOOF VWAP, in calculating the volume weighted average share price for IOOF Shares on any Trading Day during the IOOF VWAP Period on which IOOF Shares did not trade ex the entitlement to receive that dividend, the volume weighted average share price for IOOF Shares on that Trading Day will be reduced by the cash amount of that dividend (and, for this purpose, if the ex date for that dividend is after the end of the IOOF VWAP Period, the IOOF Shares will be taken to not have traded ex-dividend during the IOOF VWAP Period).

IOOF VWAP Period means the ten Trading Days immediately preceding the date of the Scheme Meeting (but not including that date).

IOOF Warranties means the warranties made by IOOF set out in clause 11.1.

Listing Rules means the official listing rules of the ASX.

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Material Contracts means those contracts which the parties have agreed in writing are material prior to the date of this agreement.

Maximum Cash Consideration means:

- (a) if after the date of this agreement but before the Implementation Date no dividend is paid on IOOF Shares and no record date for any IOOF dividend occurs, the amount calculated as the IOOF VWAP multiplied by 0.104 for each SFG Share held by a Scheme Shareholder electing to receive Maximum Cash Consideration in accordance with the terms of the Scheme; or
- (b) if after the date of this agreement but before the Implementation Date a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, the amount calculated as the IOOF VWAP multiplied by the Adjusted Number for each SFG Share held by a Scheme Shareholder electing to receive Maximum Cash Consideration in accordance with the terms of the Scheme.

Net Assets means the net assets for the IOOF Group or the SFG Group (as applicable) calculated in accordance with the accounting policies and practices applied by the IOOF Group or the SFG Group (as applicable) in preparing the financial statements as at 31 December 2013, as stated and disclosed in those financial statements filed with the ASX.

New IOOF Share means a fully paid ordinary share in IOOF to be provided to Scheme Shareholders under the Scheme.

Performance Right means a right granted under SFG's long term incentive plan to acquire an SFG Share subject to the terms of such plan.

Policy means the SFG Group directors and officers insurance policy in effect at the date of this agreement.

Recommendation has the meaning in clause 7.1(a)(i).

Record Date means 5.00 pm (Sydney time) on the date which is 7 Business Days after the Effective Date or such other time and date agreed in writing between IOOF and SFG.

Regulator's Draft has the meaning given in clause 4.1(m).

Regulatory Authority means:

- (a) any government or local authority, any department, minister or agency of any government and any other governmental, administrative, fiscal, monetary or judicial body; and
- (b) any other authority, agency, commission or similar entity having powers or jurisdiction under any law or regulation or the listing rules of any recognised stock or securities exchange,

in Australia.

Regulatory Guides means all regulatory guides published by ASIC and in force at the date of this agreement.

Regulatory Review Period means the period from the date on which SFG provides the Regulator's Draft to ASIC in accordance with clause 4.1(m) to the date on which ASIC provides a letter indicating whether or not it proposes to appear to make submissions, or will intervene to oppose the Scheme, when the application made to the Court for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard.

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Related Body Corporate of a corporation means a related body corporate of that corporation within the meaning of section 50 of the Corporations Act.

Relevant Interest has the meaning given in the Corporations Act.

Representatives means, in relation to a party, all officers, employees, professional advisers and agents of the party or of its Related Bodies Corporate.

Scheme means a scheme of arrangement under Part 5.1 of the Corporations Act between SFG and the Scheme Shareholders substantially in the form set out in Annexure A or in such other form as SFG and IOOF agree in writing.

Scheme Consideration means the consideration to be provided to Scheme Shareholders under the terms of the Scheme, for the transfer to IOOF of their Scheme Shares, as described in clause 5.

Scheme Meeting means the meeting of SFG Shareholders to be convened by the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act.

Scheme Share means an SFG Share on issue as at the Record Date.

Scheme Share Number means the total number of Scheme Shares on issue as at the Record Date.

Scheme Shareholder means a person who holds SFG Shares as at the Record Date.

Second Court Date means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

Security Interest has the meaning given in section 12 of the Personal Property Securities Act 2009 (Cth).

SFG Board means the board of directors of SFG.

SFG Director means a director of SFG.

SFG Due Diligence Material means the information disclosed by or on behalf of SFG and its Subsidiaries to IOOF and its advisers prior to the date of this agreement in the online data room and physical data room established for the purposes of the Transaction.

SFG FY14 Dividend means a dividend, fully franked or otherwise, for each SFG Share to be declared by SFG in respect of the financial year ended 30 June 2014.

SFG Group means SFG and each of its Subsidiaries.

SFG Information means all information included in the Explanatory Memorandum, other than IOOF Information, the Independent Expert's Report and the Investigating Accountant's Report.

SFG Indemnified Parties means SFG and its Related Bodies Corporate and their respective directors, officers and employees.

SFG Material Adverse Change means Specified Events which, individually or when aggregated with all such events, have or which could reasonably be expected to have a material adverse effect on the assets, liabilities, business, results, operations, trading or financial position of the SFG Group, and which would include:

- (a) the value of total consolidated Net Assets of the SFG Group being reduced, or which could reasonably be expected to be reduced, by \$25,600,000 or more; or

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- (b) the Underlying NPAT of the SFG Group being reduced or which could reasonably be expected to be reduced, by \$5,400,000 or more per annum on a recurring basis, other than an event, occurrence or matter:
- (c) contemplated or required to be done or procured by SFG pursuant to the Transaction Documents;
- (d) to the extent that it was fairly disclosed in the SFG Due Diligence Materials; or
- (e) to the extent that it was fairly disclosed in documents that were publicly available prior to the date of this agreement from public filings of SFG with ASX;
- (f) comprising a change to legislation or regulation, any judicial or administrative interpretation of the law or any practice or policy of a Regulatory Authority (whether or not retrospective in effect), including in relation to Tax; or
- (g) relating to any material adverse change or disruption to the existing financial markets or economic conditions of Australia, the United Kingdom, the United States of America, Hong Kong or China.

SFG Material Subsidiary means any Subsidiary material to the SFG Group as a whole or any operating Subsidiary.

SFG Prescribed Occurrence means the occurrence of, or agreement to do, any of the following events:

- (a) SFG converts all or any of its securities into a larger or smaller number of securities;
- (b) SFG or another member of the SFG Group (other than a wholly-owned Subsidiary of SFG) resolves to reduce its capital in any way or resolves to re-classify, combine, split, redeem or re-purchase directly or indirectly any of its shares, other than as contemplated in paragraph (f) below;
- (c) SFG or another member of the SFG Group (other than a wholly-owned Subsidiary of SFG):
 - (i) enters into a buy-back agreement; or
 - (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
- (d) any member of the SFG Group issues shares, or grants an option over its shares or agrees to make such an issue or grant such an option (other than in satisfaction of Performance Rights granted before the date of this agreement and as described in 3.1(n) or any earn-out in relation to the share acquisition agreement dated 23 February 2013 and entered into by SFG in connection with the acquisition of the Lachlan Partners group);
- (e) any member of the SFG Group issues, or agrees to issue, convertible notes or any other security convertible into shares or debt securities;
- (f) any member of the SFG Group agrees to pay, declares or pays a dividend or any other form of distribution of profits or return of capital to its members, other than:
 - (i) if the Implementation Date occurs after the record date in respect of the IOOF FY14 Dividend:
 - A. the declaration and payment by SFG of the SFG FY14 Dividend; and

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- B. the declaration and payment by SFG of the SFG Special Dividend; or
 - (ii) the declaration and payment by a member of the SFG Group of a dividend where the recipient of that dividend is SFG or a wholly-owned Subsidiary of SFG;
 - (g) any member of the SFG Group disposes of the whole, or a substantial part, of its business or property;
 - (h) any member of the SFG Group creates any Encumbrance over, or declares itself the trustee of, the whole, or a substantial part, of its business or property;
 - (i) an Insolvency Event occurs in relation to SFG or any SFG Material Subsidiary;
 - (j) any member of the SFG Group acquires or disposes of, or agrees to acquire or dispose of, any assets, business or shares for consideration greater than ten million dollars (\$10,000,000) in aggregate;
 - (k) loss or revocation of any material licence or authorisation held by a member of the SFG Group which is necessary to enable SFG to conduct its business;
 - (l) any event outside the ordinary course of business of SFG in respect of:
 - (i) director or executive remuneration or payments to the extent they are material and, for the avoidance of doubt, does not include:
 - A. any accelerated vesting of Performance Rights in connection with this Transaction;
 - B. short term incentive payments materially consistent with SFG's budget; or
 - C. retention bonuses for an amount of up to \$1,500,000 in aggregate in order to retain executives for a period of 12 months from the date of this agreement (and will include compensation to executives for Performance Rights which would otherwise be granted to executives in relation to the financial year ending 30 June 2015, and which will not be granted if the Scheme becomes Effective);
 - (ii) capital expenditure by any member of the SFG Group to the extent it is material; and
 - (iii) any reconstruction or reorganisation of the SFG Group,
- other than an event:
- (m) contemplated or required to be undertaken or procured by the SFG Group pursuant to the Transaction Documents;
 - (n) to which IOOF has provided its prior written consent; or
 - (o) fairly disclosed in the SFG Due Diligence Material or any announcement to the ASX made by SFG regarding the SFG Group prior to the parties entering into this agreement, except to the extent the parties otherwise agree.

SFG Share Register means the register of members of SFG maintained by or on behalf of SFG in accordance with section 168(1) of the Corporations Act.

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SFG Share Registry means Computershare Investor Services Pty Limited (ACN 078 279 277).

SFG Shareholder means a person who is registered in the SFG Share Register as a holder of SFG Shares.

SFG Shares means fully paid ordinary shares in the capital of SFG.

SFG Special Dividend means a fully franked dividend being a cash amount per SFG Share equal to the amount given by the following formula:

$$(IOOF\ FY14\ Dividend \times 0.104) - SFG\ FY14\ Dividend$$

provided that the references to the IOOF FY14 Dividend and SFG FY14 Dividend in the formula above will include the value of any franking credits attaching to the respective dividends on the basis that the credits will be valued at 100% of their face value.

SFG Warranties means the warranties made by SFG set out in clause 11.5.

Share Consideration means the New IOOF Shares which a Scheme Shareholder is entitled to receive as part of the Scheme Consideration under clause 5.

Share Offer Consideration means:

- (a) if after the date of this agreement but before the Implementation Date, no dividend is paid on IOOF Shares and no record date for any IOOF dividend occurs 0.104 New IOOF Shares for each SFG Share held by a Scheme Shareholder receiving Share Consideration in accordance with the terms of the Scheme; or
- (b) if after the date of this agreement but before the Implementation Date, a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, the Adjusted Number of New IOOF Shares for each SFG Share held by a Scheme Shareholder receiving Share Consideration in accordance with the terms of the Scheme.

Specified Events means an event, occurrence or matter that:

- (a) occurs after the date of this agreement;
- (b) occurs before the date of this agreement but is only announced or publicly disclosed after the date of this agreement; or
- (c) will occur after the date of this agreement and which has not been publicly announced prior to the date of this agreement.

Subsidiary means a subsidiary within the meaning given to that term in the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which in the determination of the SFG Board, acting in good faith, and after receiving advice from its external legal and external financial advisors, would, if it is completed, be more favourable to SFG Shareholders (as a whole) than the Transaction, taking into account all aspects of the Competing Proposal, including:

- (a) the value of the consideration payable to SFG Shareholders under the Competing Proposal (as compared to the consideration available under the Transaction);
- (b) the conditions of the Competing Proposal, the likelihood of those conditions being satisfied and the level of certainty in respect of the funding required for the Competing Proposal; and
- (c) the likely timing required to implement or complete the Competing Proposal.

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Tax means any tax, levy, excise, duty, charge, surcharge, contribution, withholding tax (including royalty withholding tax), impost or withholding obligation of whatever nature, whether direct or indirect, (including any tax payable under a country's foreign source income attribution or anti-tax-deferral rules) by whatever method collected or recovered, together with any fees, penalties, fines, interest or statutory charges in any country or jurisdiction but excluding any stamp duty payable on any transfer of the SFG Shares.

Third Party means a person other than IOOF, SFG, or their respective Related Bodies Corporate.

Timetable means the indicative timetable in relation to the Scheme set out in Schedule 1, or such other indicative timetable as SFG and IOOF agree in writing.

Trading Day has the meaning given to that term in the Listing Rules.

Transaction means the acquisition by IOOF of the Scheme Shares for the Scheme Consideration pursuant to the Scheme.

Transaction Documents means:

- (a) this agreement;
- (b) the Scheme; and
- (c) the Deed Poll.

Underlying NPAT means net profit after tax excluding amortisation and one-off, non-operational items for the IOOF Group or the SFG Group (as applicable) calculated in accordance with the accounting policies and practices applied by the IOOF Group or the SFG Group (as applicable) in preparing the financial statements for the period ending 31 December 2013, as stated and disclosed in those financial statements filed with the ASX.

Voting Intention has the meaning in clause 7.1(a)(ii).

1.2 Best and reasonable endeavours

Any provision of this agreement which requires a party to use best endeavours or all reasonable endeavours to procure that something is performed or occurs or does not occur does not include any obligation:

- (a) to pay any money or to provide any financial compensation, valuable consideration or any other incentive to or for the benefit of any person except for payment of any applicable fee for the lodgement or filing of any relevant application with any Regulatory Authority; or
- (b) to commence any legal action or proceeding against any person,

except where that provision expressly specifies otherwise.

1.3 Business Day

If the day on which any act to be done under this agreement is a day other than a Business Day, that act must be done on the immediately preceding Business Day except where this agreement expressly specifies otherwise.

1.4 Interpretation

In this agreement headings are for convenience only and do not affect interpretation and, unless the contrary intention appears:

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- (a) a word importing the singular includes the plural and vice versa, and a word of any gender includes the corresponding words of any other gender;
- (b) the word **including** or any other form of that word is not a word of limitation;
- (c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (d) a reference to a **person** includes an individual, the estate of an individual, a corporation, an authority, an association or parties in a joint venture, a partnership and a trust;
- (e) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (f) a reference to a document (including this agreement) is to that document as varied, novated, ratified or replaced from time to time;
- (g) a reference to a party, clause, schedule, exhibit, attachment, or annexure is a reference to a party, clause, schedule, exhibit, attachment, or annexure to or of this agreement, and a reference to this agreement includes all schedules, exhibits, attachments, and annexures to it;
- (h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (**obsolete body**), means the agency or body which performs most closely the functions of the obsolete body;
- (i) a reference to a statute includes any regulations or other instruments made under it (**delegated legislation**) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re-enactments and replacements;
- (j) a reference to **\$** or **dollar** is to Australian currency;
- (k) if a word or phrase is not given a defined meaning in clause 1.1 but is defined in or for the purposes of the Corporations Act, it has the same meaning when used in this agreement;
- (l) a reference to a date or time is to that date or time in Sydney, Australia; and
- (m) this agreement must not be construed adversely to a party just because that party prepared it or caused it to be prepared.

2. Obligations in relation to Scheme

2.1 SFG to propose Scheme

SFG agrees to propose the Scheme on and subject to the terms and conditions of this agreement. IOOF agrees to assist SFG to propose the Scheme on and subject to the terms and conditions of this agreement.

2.2 SFG and IOOF to Implement Scheme

SFG and IOOF agree to implement the Scheme on and subject to the terms and conditions of this agreement.

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2.3 IOOF may elect a Subsidiary

- (a) SFG agrees that IOOF may elect, under this clause 2.3, a wholly-owned Subsidiary of IOOF to acquire all of the SFG Shares under the Scheme by giving written notice to SFG of that relevant Subsidiary of IOOF on or before the First Court Date.
- (b) IOOF warrants that if it elects a wholly-owned Subsidiary to acquire all of the SFG Shares pursuant to clause 2.3(a), IOOF and the wholly-owned subsidiary will both enter into the Deed Poll and IOOF will continue to be bound by this agreement.
- (c) For the avoidance of doubt, IOOF warrants that if it elects a wholly-owned Subsidiary to acquire all of the SFG Shares pursuant to clause 2.3(a), it will ensure the wholly-owned subsidiary completes the acquisition in accordance with the terms of this agreement and the Deed Poll.

3. Conditions precedent

3.1 Conditions

Subject to this clause 3, the Scheme will not become Effective, and the obligations of the parties under clause 4 are not binding, until each of the conditions listed in the first column of the following table are either satisfied or waived in accordance with clause 3.4:

Condition	Right to benefit & waive	Responsibility to satisfy
(a) (No SFG Material Adverse Change) no SFG Material Adverse Change occurs or becomes known to IOOF between the date of this agreement and 8:00 am on the Second Court Date;	IOOF	SFG
(b) (No IOOF Material Adverse Change) no IOOF Material Adverse Change occurs or becomes known to SFG between the date of this agreement and 8:00 am on the Second Court Date;	SFG	IOOF
(c) (No restraint) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction, no preliminary or final decision, determination, notice of objection, or order issued by any Regulatory Authority or any other legal restraint preventing any of the transactions contemplated by this agreement is in effect as at 8.00 am on the Second Court Date;	IOOF and SFG	IOOF and SFG
(d) (ASIC and ASX consents) before 8.00 am on the Second Court Date, ASIC and ASX issue or provide consents or approvals or have done such other acts which IOOF and SFG agree are reasonably necessary to implement the Scheme. If such consents, approvals or doing of other acts are subject to conditions those conditions must be acceptable to IOOF and SFG, acting	IOOF and SFG	IOOF and SFG

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Condition	Right to benefit & waive	Responsibility to satisfy
reasonably;		
(e) (SFG Prescribed Occurrence) no SFG Prescribed Occurrence has occurred or becomes known to IOOF after the date of this agreement and before 8.00 am on the Second Court Date;	IOOF	SFG
(f) (IOOF Prescribed Occurrence) no IOOF Prescribed Occurrence has occurred or becomes known to SFG after the date of this agreement and before 8.00 am on the Second Court Date;	SFG	IOOF
(g) (SFG Warranties) before 8.00 am on the Second Court Date, the SFG Warranties: (i) that are qualified as to materiality, are true and correct; and (ii) that are not so qualified, are true and correct in all material respects, as at the time they are given;	IOOF	SFG
(h) (IOOF Warranties) before 8.00 am on the Second Court Date, the IOOF Warranties: (i) that are qualified as to materiality, are true and correct; and (ii) that are not so qualified, are true and correct in all material respects, as at the time they are given;	SFG	IOOF
(i) (Shareholder approval) SFG Shareholders approve the Scheme by the majorities required under section 411(4)(a)(ii) of the Corporations Act;	None	SFG
(j) (Court approval) the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;	None	IOOF and SFG
(k) (Quotation of New IOOF Shares) the New IOOF Shares to be issued to Scheme Shareholders pursuant to the Scheme have been approved for official quotation by ASX (any such approval may be subject to customary conditions and to the Scheme becoming Effective) before 8.00 am on the Second Court Date;	SFG	IOOF
(l) (Independent Expert's Report) before the date the Explanatory Memorandum is lodged	SFG	SFG and IOOF

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Condition	Right to benefit & waive	Responsibility to satisfy
with ASIC, the Independent Expert issues a report that concludes that the Scheme is in the best interests of Scheme Shareholders;		
(m) (execution of Deed Poll) before the date of sending the Explanatory Memorandum to relevant SFG Shareholders, IOOF validly signs, seals and delivers the Deed Poll;	SFG	IOOF
(n) (Performance Rights) all outstanding Performance Rights are vested and converted into SFG Shares, cancelled or agreements to acquire or cancel them have been executed by each of the holders of Performance Rights and SFG before 8.00am on the Second Court Date.	IOOF	SFG

3.2 General obligations in relation to Conditions

Without prejudice to any other obligations of the parties under this agreement, in respect of any given Condition:

- (a) if one party is specified in the third column of the table in clause 3.1 opposite that Condition, that party must use its best endeavours to procure that that Condition is satisfied as soon as practicable after the date of this agreement and continues to be satisfied at all times up until the last time it is to be satisfied (as the case may require);
- (b) if both parties are specified in the third column of a table in clause 3.1 opposite that Condition, both parties must, to the extent that it is within their respective control or influence, use their best endeavours to procure that that Condition is satisfied as soon as practicable after the date of this agreement and continues to be satisfied at all times up until the last time it is to be satisfied (as the case may require); and
- (c) each party must, to the extent that it is within its respective control or influence, use its best endeavours to procure that there is no occurrence that would prevent the Condition being satisfied and no party shall take any action that will or is likely to hinder or prevent the satisfaction of the Condition except to the extent that such action is required to be done or procured pursuant to the Transaction Documents or is required by law.

3.3 Notice in relation to satisfaction of Conditions

Each party must:

- (a) keep the other party promptly and reasonably informed of the steps it has taken and of its progress towards satisfaction of the Conditions;
- (b) in relation to any Condition, promptly notify the other party in writing upon becoming aware of:
 - (i) the satisfaction of that Condition, in which case the notifying party must also provide reasonable evidence that the Condition has been satisfied; or

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- (ii) any fact or circumstance that it becomes aware of which results in, or may result in, that Condition becoming incapable of satisfaction or may result in that Condition not being satisfied in accordance with its terms; and
- (c) in relation to any Condition, immediately notify the other party in writing of a breach or non-fulfilment of a Condition or any occurrence or event that will prevent a Condition from being satisfied and where a party is entitled to waive that Condition upon receipt or delivery of such a notice (as applicable) that party must notify the other party in accordance with clause 3.4 as soon as possible, (in any event before 5.00 pm on the Business Day before the Second Court Date) as to whether the party waives the breach or non-fulfilment of the Condition resulting from the occurrence or event.

If there occurs a breach or non-fulfilment of a Condition or any occurrence or event that will prevent a Condition from being satisfied, the parties will consult in good faith for 5 Business Days to determine whether an alternative solution can be agreed.

3.4 Waiver of Conditions

- (a) A Condition is only for the benefit of:
 - (i) if one party is specified in the second column of the table in clause 3.1 opposite that Condition, that party; or
 - (ii) if both parties are specified in the second column of the table in clause 3.1 opposite that Condition, both parties.
- (b) A Condition may be waived and may only be waived:
 - (i) if one party is specified in the second column of the table in clause 3.1 opposite that Condition, by that party by written notice to the other party; or
 - (ii) if both parties are specified in the second column of the table in clause 3.1 opposite that Condition, by written agreement between the parties.
- (c) A party entitled to waive or to agree to waive a Condition under this clause 3.4 may do so in its absolute discretion subject to the provision of written notice to the other party.
- (d) A party that waives or agrees to waive a Condition is not prevented from bringing a claim against any other party in respect of any breach of this agreement that caused that Condition not to be satisfied.
- (e) Waiver of a breach or non-fulfilment in respect of one Condition does not constitute:
 - (i) a waiver of breach or non-fulfilment of any other Condition resulting from the same event; or
 - (ii) a waiver of breach or non-fulfilment of that Condition resulting from any other event.

3.5 Consultation on failure of Conditions Precedent

If:

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- (a) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with this agreement by the time or date specified in this agreement for the satisfaction of the Condition Precedent;
 - (b) there is an act, failure to act or occurrence which will, or which either party becomes aware will prevent a Condition Precedent being satisfied by the time or date specified in this agreement for the satisfaction of the Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived in accordance with this agreement); or
 - (c) the Scheme has not become Effective by the End Date,
- then the parties must consult in good faith with a view to determining whether:
- (d) the Scheme may proceed by way of alternative means or methods;
 - (e) to extend the relevant time for satisfaction of the Condition Precedent or to adjourn or change the date of an application to the Court; or
 - (f) to extend the End Date.

3.6 Failure to agree

If the parties are unable to reach agreement under clause 3.5 within 5 Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date):

- (a) subject to clause 3.6(b), either party may terminate this agreement (and such termination will be in accordance with termination event (i) in the table in clause 13.1(b)); or
- (b) if a Condition Precedent may be waived and exists for the benefit of one party only, that party may only waive that Condition Precedent or terminate this agreement (and such termination will be in accordance with termination event (i) in the table in clause 13.1(b)),
- (c) in each case before 8.00am on the Second Court Date.
- (d) A party will not be entitled to terminate this agreement pursuant to this clause 3.6 if the relevant Condition Precedent has not been satisfied or agreement cannot be reached as a result of:
 - (i) a breach of this agreement by that party; or
 - (ii) a deliberate act or omission of that party for the purpose of frustrating satisfaction of the Condition Precedent.

4. Implementation of Scheme

4.1 SFG's obligations

SFG must take all steps reasonably necessary to implement the Scheme as soon as is reasonably practicable after the date of this agreement and so as to complete the Transaction substantially in accordance with the Timetable, and in particular SFG must:

- (a) **(Explanatory Memorandum)** as soon as practicable after the date of this agreement, prepare the Explanatory Memorandum (excluding IOOF Information, the Independent Expert's Report and the Investigating Accountant's Report) in accordance with all applicable laws and in particular the requirements of the Corporations Act, the Corporations Regulations, the Listing Rules and the Regulatory Guides;

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- (b) **(Review of IOOF Information)** as soon as practicable after receiving a draft of IOOF Information pursuant to clause 4.2(a), review and provide comments on the form and content of IOOF Information to IOOF;
- (c) **(Independent Expert)** promptly appoint the Independent Expert and provide all assistance and information reasonably requested by the Independent Expert in connection with the preparation of the Independent Expert's Report for inclusion in the Explanatory Memorandum;
- (d) **(Investigating Accountant)** promptly provide all assistance and information reasonably requested by the Investigating Accountant to enable it to prepare its report for inclusion in the Explanatory Memorandum;
- (e) **(Provide draft Explanatory Memorandum to IOOF)** provide drafts of the Explanatory Memorandum to IOOF, consult with IOOF in relation to the content of those drafts and (acting reasonably and in good faith) take into account any comments from IOOF and its Representatives on those drafts;
- (f) **(Provide draft Independent Expert's Report)** provide a copy of each draft of the Independent Expert's Report to IOOF as soon as practicable after its receipt and, in any event, provide a copy of the draft of the Independent Expert's Report included in the Regulator's Draft to IOOF no later than 2 Business Days prior to its provision to ASIC;
- (g) **(Directors' Recommendation)** state in the Explanatory Memorandum and the Announcement (on the basis of statements made to SFG by each SFG Director) the Recommendation and Voting Intention of each of the SFG Directors in accordance with clause 7.1;
- (h) **(Directors' votes)** use its reasonable endeavours to procure that:
 - (i) each SFG Director confirms their intention to vote any Scheme Shares in which they have a Relevant Interest in favour of the Scheme and any other resolution submitted to SFG Shareholders for their approval in connection with the Scheme, provided that the SFG Director has not changed or in any way qualified its Recommendation or Voting Intention in accordance with clause 7.1(b) ;
 - (ii) each SFG Director votes any Scheme Shares in which they have a Relevant Interest in favour of the Scheme and any other resolution submitted to SFG Shareholders for their approval in connection with the Scheme, provided that the SFG Director has not changed or in any way qualified its Recommendation or Voting Intention in accordance with clause 7.1(b); and
 - (iii) each SFG Director does not change that Voting Intention, unless:
 - A. a Superior Proposal is made; or
 - B. the Independent Expert concludes in the Independent Expert's Report (either in its initial report or any subsequent update of its report) that the Scheme is not in the best interests of the SFG Shareholders.
- (i) **(Registry details)** subject to the terms of the Scheme:
 - (i) provide all necessary information about the SFG Shareholders to IOOF which IOOF requires in order to assist IOOF to solicit votes at the Scheme Meeting; and

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- (ii) provide all necessary directions to the SFG Share Registry to promptly provide any information that IOOF reasonably requests in relation to the SFG Share Register, including any sub-register, and, where requested by IOOF, SFG must provide such information to IOOF in such electronic form as is reasonably requested by IOOF,
- subject to all applicable laws;
- (j) **(Meetings with SFG Shareholders)** at the request of IOOF, invite Representatives of SFG to accompany Representatives of IOOF at meetings of SFG Shareholders that have been approved in writing by SFG to convey SFG's recommendation of the Scheme and the rationale for that recommendation;
- (k) **(Approval of draft Explanatory Memorandum)** procure that a meeting of the SFG Board is convened to approve the draft Explanatory Memorandum to be provided to ASIC for its review;
- (l) **(Keep IOOF informed)** from the First Court Date until the Implementation Date, promptly inform IOOF if it becomes aware that the Explanatory Memorandum contains a statement which is misleading or deceptive in a material respect or contains a material omission;
- (m) **(ASIC review)** as soon as reasonably practicable provide an advanced draft of the Explanatory Memorandum (**Regulator's Draft**) to ASIC, for its review and approval for the purposes of section 411(2) of the Corporations Act, and to IOOF and:
 - (i) liaise with ASIC as necessary during the Regulatory Review Period; and
 - (ii) promptly notify, and consult with, IOOF in relation to any matters raised by ASIC in connection with the Explanatory Memorandum or the Scheme and any presentation or submission to, or at any proposed meeting with, ASIC, and co-operate and consult with IOOF to resolve any such matters;
- (n) **(Section 411(17)(b) statement)** apply to ASIC for the production of:
 - (i) an indication of intent letter stating that it does not intend to appear before the Court on the First Court Date; and
 - (ii) a statement in writing pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme;
- (o) **(Court documents)** consult with IOOF in relation to the content of the documents required for the purposes of the Court hearings held for the purposes of sections 411(1) and 411(4)(b) of the Corporations Act in relation to the Scheme (including originating process, affidavits, submissions and draft minutes of Court orders) and consider in good faith comments on, and suggested amendments to, those documents from IOOF and its Representatives;
- (p) **(First Court hearing)** lodge all documents with the Court and take all other reasonable steps to ensure that an application is heard by the Court for an order under section 411(1) of the Corporations Act directing SFG to convene the Scheme Meeting;
- (q) **(Approval of Explanatory Memorandum)** procure that a meeting of the SFG Board is convened to approve the Explanatory Memorandum for registration with ASIC and despatch to SFG Shareholders;
- (r) **(Due diligence and verification)** undertake appropriate due diligence and verification processes in relation to the Explanatory Memorandum (other than in

relation to the IOOF Information, the Independent Expert's Report and the Investigating Accountant's Report);

- (s) **(Register Explanatory Memorandum)** request to ASIC that the explanatory statement included in the Explanatory Memorandum in relation to the Scheme be registered in accordance with section 412(6) of the Corporations Act;
- (t) **(Compliance with Court orders)** take all reasonable steps necessary to comply with the orders of the Court including, as required, dispatching the Explanatory Memorandum to SFG Shareholders and convening and holding the Scheme Meeting;
- (u) **(Obtain IOOF's consent)** before dispatch of the Explanatory Memorandum to SFG Shareholders, obtain the written consent of IOOF to inclusion of IOOF Information in the Explanatory Memorandum in the form and context in which it appears (such consent not to be unreasonably withheld or delayed);
- (v) **(Send Explanatory Memorandum)** send the Explanatory Memorandum to SFG Shareholders as soon as practicable after the Court orders SFG to convene the Scheme Meeting;
- (w) **(Update Explanatory Memorandum)** if it becomes aware of information after the date of dispatch of the Explanatory Memorandum, which is required to be disclosed to SFG Shareholders under any applicable law (including as may be necessary to ensure that the Explanatory Memorandum is not false, misleading or deceptive in any material respect), as expeditiously as practicable:
 - (i) inform SFG Shareholders of the information in an appropriate and timely manner, and in accordance with applicable law; and
 - (ii) to the extent it is reasonably practicable to do so, provide IOOF with drafts of any documents that it proposes to issue to SFG Shareholders under this clause 4.1(w), consult with IOOF in relation to the content of those drafts and (acting reasonably and in good faith) take into account any comments from IOOF and its Representatives on those drafts;
- (x) **(Scheme Meeting)** convene the Scheme Meeting in accordance with any such orders made by the Court and seek the approval of SFG Shareholders for the Scheme and, for this purpose, the SFG Directors must participate in reasonable efforts to promote the merits of the Scheme, including meeting with key SFG Shareholders at the reasonable request of IOOF. SFG may adjourn or otherwise change the timing of the Scheme Meeting (or actually do so) where the SFG Board considers it is appropriate to do so in the best interests of the SFG Shareholders;
- (y) **(Court approval application)** if the resolution submitted to the Scheme Meeting in relation to the Scheme is passed by the majorities required under section 411(4)(a)(ii) of the Corporations Act and subject to all other Conditions (other than the Condition in clause 3.1(j)) being satisfied or waived in accordance with this agreement, apply (and, to the extent necessary, re-apply) to the Court for orders approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act;
- (z) **(Certificate)** at the hearing on the Second Court Date, provide to the Court a certificate confirming (in respect of matters within its knowledge) whether or not the Conditions (other than the Condition in clause 3.1(j)) have been satisfied or waived in accordance with this agreement. SFG must provide a draft of that certificate to IOOF by 5.00 pm on the Business Day prior to the Second Court Date;
- (aa) **(Implementation of Scheme)** if the Scheme is approved by the Court:

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- (i) lodge with ASIC an office copy of the orders approving the Scheme in accordance with section 411(10) of the Corporations Act before 5:00pm on the Business Day on which such office copy is received (or such later date as is agreed between the parties in writing);
 - (ii) close the SFG Share Register as at the Record Date and determine entitlements to the Scheme Consideration in accordance with the Scheme;
 - (iii) provide to IOOF all information about the Scheme Shareholders that IOOF reasonably requires in order for IOOF to provide, or procure the provision of, the Scheme Consideration in accordance with the Scheme;
 - (iv) promptly execute proper instruments for the transfer of, and register all transfers of, Scheme Shares to IOOF in accordance with the Scheme;
 - (v) subject to IOOF satisfying its obligations under clause 5, on the Implementation Date (or as soon as practicable thereafter) register all transfers of Scheme Shares to IOOF in accordance with the Scheme; and
 - (vi) promptly do all other things contemplated by or necessary to give effect to the Scheme and the orders of the Court approving the Scheme;
- (bb) **(ASX listing)** must use its best endeavours to ensure that SFG continues to be listed on ASX, and that the SFG Shares continue to be quoted on ASX, until the close of business on the Implementation Date, including by making appropriate applications to ASX and ASIC; and
- (cc) **(Other things necessary)** promptly do all other things reasonably within its power to lawfully give effect to the Scheme and the orders of the Court approving the Scheme.

4.2 IOOF's obligations

IOOF must take all steps reasonably necessary to assist SFG to implement the Scheme as soon as is reasonably practicable and so as to complete the Transaction substantially in accordance with the Timetable, and in particular IOOF must:

- (a) **(Draft of IOOF Information)** provide to SFG a draft of IOOF Information as soon as reasonably practicable after the date of this agreement and consult with SFG in relation to the content of drafts of IOOF Information and (acting reasonably and in good faith) take into account any comments from SFG and its Representatives on those drafts;
- (b) **(Final form of IOOF Information)** provide to SFG IOOF Information in a form appropriate for inclusion in the Explanatory Memorandum;
- (c) **(Review Explanatory Memorandum)** review the drafts of the Explanatory Memorandum provided by SFG and provide comments on those drafts promptly and in good faith;
- (d) **(Independent Expert)** promptly provide all assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for inclusion in the Explanatory Memorandum;
- (e) **(Investigating Accountant)** promptly appoint the Investigating Accountant and provide all assistance and information reasonably requested by the Investigating Accountant in connection with the preparation of the Investigating Accountant's Report for inclusion in the Explanatory Memorandum;

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- (f) **(Due diligence and verification)** undertake appropriate due diligence and verification processes in relation to IOOF Information and provide to SFG all evidence of such processes as may be reasonably requested;
- (g) **(Approval of IOOF Information)** as soon as reasonably practicable after receipt from SFG of the draft of the Explanatory Memorandum that SFG proposes to dispatch to SFG Shareholders, confirm in writing to SFG that IOOF Information in the form and context in which it appears in the draft of the Explanatory Memorandum is not misleading or deceptive in any material respect and does not contain any material omission and is in a form appropriate for dispatch to the SFG Shareholders (subject to the approval of the Court);
- (h) **(Keep SFG informed)** promptly inform SFG if it becomes aware from the First Court Date until the Implementation Date that IOOF Information in the form and context in which it appears in the Explanatory Memorandum is or has become misleading or deceptive in any material respect or contains any material omission, and provide such further or new information as is required to ensure that such information is no longer misleading or deceptive in any material respect or contains any material omission;
- (i) **(Deed Poll)** no later than the Business Day prior to the First Court Date, enter into the Deed Poll and deliver the executed Deed Poll to SFG;
- (j) **(Representation)** procure that, if requested by SFG, it is represented by counsel at the Court hearings convened for the purposes of section 411(4)(b) of the Corporations Act, at which, through its counsel and, if requested by the Court, IOOF will undertake to do all such things and take all such steps within its power as may be reasonably necessary in order to ensure the fulfilment of its obligations under this agreement and the Scheme;
- (k) **(Certificate)** at or before the hearing on the Second Court Date, provide to the Court a certificate (or such other evidence as the court may request) confirming (in respect of matters within its knowledge) whether or not the Conditions (other than the Condition in clause 3.1(j)) have been satisfied or waived in accordance with this agreement. IOOF must provide a draft of that certificate to SFG by 5:00 pm on the Business Day prior to the Second Court Date;
- (l) **(Official quotation)** apply to ASX for official quotation by ASX of the New IOOF Shares to be issued to Scheme Shareholders pursuant to the Scheme and use its best endeavours to obtain the approval of ASX for official quotation (subject to customary conditions and to the Scheme becoming Effective) no later than 8.00am on the Second Court Date;
- (m) **(Second Court Hearing)** procure that it is represented by counsel at the Court hearing convened for the purposes of section 411(4)(b) of the Corporations Act, at which, through its counsel, IOOF will undertake (if requested by the Court) to do all such things and take all such steps within its power as may be reasonably necessary in order to ensure the fulfilment of its obligations under this agreement and the Scheme;
- (n) **(Scheme Consideration)** if the Scheme becomes Effective, provide (or procure the provision of) the Maximum Cash Consideration and Share Offer Consideration on the Implementation Date in accordance with clause 5 and the terms of the Scheme and the Deed Poll;
- (o) **(Despatch of Holding Statements)** despatch holding statements to Scheme Shareholders for the IOOF Shares issued to those Scheme Shareholders pursuant to the Scheme by midday on the Implementation Date;
- (p) **(promote merits of Transaction)** participate in efforts reasonably requested by SFG to promote the merits of the Transaction and the Scheme Consideration,

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including meeting with key SFG Shareholders at the reasonable request of SFG;
and

- (q) **(Other things necessary)** promptly do all other things reasonably within its power to lawfully give effect to the Scheme.

4.3 Dispute as to Explanatory Memorandum

If, after a reasonable period of consultation, the parties, each acting reasonably and in good faith, are unable to agree on the form or content of the Explanatory Memorandum, then:

- (a) if the disagreement relates to the form or content of IOOF Information (or any information solely derived from, or prepared solely in reliance on, IOOF Information), SFG will, acting in good faith, make such amendments to that information in the Explanatory Memorandum as IOOF may reasonably require; and
- (b) if the disagreement relates to the form or content of the SFG Information (or any information solely derived from, or prepared solely in reliance on, information provided by or on behalf of SFG, or extracted from announcements made by SFG to ASX regarding the SFG Group), SFG will, acting in good faith, decide the final form of that information in the Explanatory Memorandum.

4.4 Payment of dividends

Notwithstanding any other provision of this agreement, if the Implementation Date occurs after the record date in respect of the IOOF FY14 Dividend, SFG may in its discretion declare and pay:

- (a) the SFG FY14 Dividend; and
- (b) the SFG Special Dividend,

to the SFG Shareholders, and the record date for the SFG FY14 Dividend and the SFG Special Dividend must occur on or before the Record Date.

4.5 Reconstitution of SFG Board

On the Implementation Date, but subject to IOOF having provided the Scheme Consideration in accordance with clause 5, SFG must:

- (a) cause the appointment to the SFG Board and to the boards of each Subsidiary of SFG of such number of persons as nominated by IOOF, subject to those persons being appointed having provided a consent to act as directors of the relevant companies; and
- (b) procure that all SFG Directors and the directors of each subsidiary of SFG (other than, in each case, those appointed pursuant to clause 4.5(a)) resign from the SFG Board and the board of each subsidiary of SFG.

4.6 Removal of SFG from official list of ASX

If directed by IOOF, SFG must take all steps necessary for SFG to be removed from the official list of ASX on the day immediately following the Implementation Date, including lodging a request for removal with ASX prior to the Implementation Date and SFG and/or IOOF satisfying any conditions reasonably required by ASX for it to act on that request.

4.7 Responsibility statement

The Explanatory Memorandum will contain a responsibility statement to the effect that:

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- (a) IOOF is responsible for IOOF Information contained in the Explanatory Memorandum; and
- (b) SFG is responsible for the SFG Information contained in the Explanatory Memorandum.

5. Scheme Consideration

5.1 Consideration

- (a) Subject to the Scheme becoming Effective and clauses 5.2 and 5.7, IOOF agrees in favour of SFG that, in consideration of the transfer to IOOF of each Scheme Share under the Scheme, IOOF will provide to each Scheme Shareholder the Scheme Consideration for each Scheme Share held by them, in accordance with the election made by the Scheme Shareholder as contemplated by this clause 5 and the terms of the Scheme.
- (b) Subject to clauses 5.6 and 5.7, IOOF will:
 - (i) pay, or procure the payment to each Scheme Shareholder of the Maximum Cash Consideration (if applicable) to which they are entitled, as determined in accordance with clauses 5.2, 5.3, 5.4, 5.5 and 5.6, in respect of each Scheme Share held by that Scheme Shareholder at the Record Date; and
 - (ii) issue to each Scheme Shareholder the Share Offer Consideration to which they are entitled, as determined in accordance with clauses 5.2, 5.3, 5.4, 5.5 and 5.6, in respect of each Scheme Share held by that Scheme Shareholder at the Record Date.

5.2 Election mechanism

- (a) SFG must ensure that the Explanatory Memorandum sent to SFG Shareholders is accompanied by a form of election which provides for the matters set out in clause 5.2(b) under which each Scheme Shareholder is requested to elect one of the following:
 - (i) Share Offer Consideration in respect of all of their SFG Shares; or
 - (ii) Maximum Cash Consideration in respect of all of their SFG Shares.
- (b) The form of election shall provide that:
 - (i) subject to clause 5.2(b)(vi), a Scheme Shareholder may make only one election in relation to a particular holding;
 - (ii) subject to clause 5.2(b)(vi), any valid election by a Scheme Shareholder will apply to all of the SFG Shares of the Scheme Shareholder as at the Record Date;
 - (iii) a valid election may be made by a Scheme Shareholder by returning the election form before the Record Date in writing to an address to be specified by SFG in the Explanatory Memorandum;
 - (iv) once made, a valid election by a Scheme Shareholder may not be varied before the Record Date;
 - (v) if a valid election is not made by a Scheme Shareholder prior to the Record Date, then that Scheme Shareholder will be deemed to have

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made an election to receive Share Offer Consideration in respect of all Scheme Shares held by that shareholder; and

- (vi) in the manner considered appropriate by SFG (acting reasonably), a Scheme Shareholder that holds one or more parcels of SFG Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels of SFG Shares.
- (c) SFG must ensure that, to the extent reasonably practicable, Scheme Shareholders that have acquired SFG Shares after the date of the despatch of the Explanatory Memorandum can receive an election form on request to SFG.
- (d) In order to facilitate the issue of the IOOF Shares, SFG must provide, or procure the provision, to IOOF, or a nominee of IOOF, of details of the final elections made by each Scheme Shareholder, within 2 Business Days after the Record Date.

5.3 Election for Share Offer Consideration

If a Scheme Shareholder makes a valid election, or is deemed to have made an election, to receive Share Offer Consideration, then subject to the Scheme becoming Effective and subject to clauses 5.6 and 5.7 the Scheme Shareholder will be entitled to receive, for each SFG Share held by that Scheme Shareholder as at the Record Date, the Share Offer Consideration.

5.4 Election for Maximum Cash Consideration

If a Scheme Shareholder makes a valid election to receive Maximum Cash Consideration, then subject to the Scheme becoming Effective and subject to clauses 5.5, 5.6 and 5.7 the Scheme Shareholder will be entitled to receive, for each SFG Share held by that Scheme Shareholder as at the Record Date, the Maximum Cash Consideration, unless clause 5.5 applies in which case the amount of Maximum Cash Consideration paid to the relevant Scheme Shareholder will be determined in accordance with that clause.

5.5 Scale back

- (a) This clause 5.5 applies if the elections made by Scheme Shareholders are such that the aggregate amount of Maximum Cash Consideration that would be required to be paid by IOOF to satisfy the entitlements determined under clause 5.4 exceeds \$100,000,000.
- (b) Where this clause 5.5 applies, the aggregate Maximum Cash Consideration to which each Scheme Shareholder is entitled will be scaled back in accordance with the following formula:

$$tCC = \frac{CCcap}{CCtotal} \times pCC$$

Where:

tCC is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder is entitled to receive as part of the Maximum Cash Consideration for all SFG Shares held by the Scheme Shareholder as at the Record Date;

pCC is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder would have received as part of the Scheme Consideration for all SFG Shares held by that Scheme Shareholder as at the Record Date determined under clause 5.4 (but for this clause 5.5);

CCcap \$100,000,000; and

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CC total is the aggregate amount of Maximum Cash Consideration that would be required to be paid by IOOF in payment of the Maximum Cash Consideration to satisfy the entitlements determined under clause 5.4 for all Scheme Shareholders (but for this clause 5.5).

- (c) To the extent that the application of clause 5.5(b) results in an aggregate entitlement of a Scheme Shareholder to Maximum Cash Consideration that is less than would have applied but for this clause 5.5, the Scheme Shareholder will be entitled to Share Consideration in accordance with the following formula:

$$tSC = \frac{pCC - tCC}{VWAP}$$

Where:

tSC is the aggregate amount of New IOOF Shares the relevant Scheme Shareholder is entitled to receive as Share Consideration for all SFG Shares held by that Scheme Shareholder as at the Record Date;

pCC has the meaning given to that term in clause 5.5(b);

tCC is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder is entitled to receive for all SFG Shares held by the Scheme Shareholder as at the Record Date as determined in accordance with clause 5.5(b); and

VWAP is the IOOF VWAP.

5.6 Fractional entitlements and share splitting or division

- (a) If the number of Scheme Shares held by a Scheme Shareholder at the Record Date is such that the aggregate entitlement of the Scheme Shareholder to Scheme Consideration:

- (i) comprising IOOF Shares is such that a fractional entitlement to an IOOF Share arises; or
- (ii) comprising cash is such that a fractional entitlement to a cent arises,

then the entitlement of that Scheme Shareholder must be rounded up or down, with any such fractional entitlement of less than 0.5 being rounded down to the nearest whole number of IOOF Shares (or cents, as applicable), and any such fractional entitlement of 0.5 or more will be rounded up to the nearest whole number of IOOF Shares (or cents, as applicable).

- (b) If IOOF is of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares which results in rounding in accordance with clause 5.6(a)) have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, IOOF may give notice to those Scheme Shareholders:

- (i) setting out their names and registered addresses as shown in the SFG Share Register;
- (ii) stating that opinion; and
- (iii) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares

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will, for the purposes of the other provisions of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the other provisions of the Scheme, be taken to hold no Scheme Shares. IOOF in complying with the other provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

5.7 Ineligible Overseas Shareholders

- (a) IOOF will ensure that IOOF Shares to which an Ineligible Overseas Shareholder would otherwise have been entitled (if they were an Eligible Scheme Shareholder) will be issued to a nominee appointed by IOOF.
- (b) IOOF will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:
 - (i) sells on the financial market conducted by ASX all of the IOOF Shares issued to the nominee pursuant to clause 5.7(a) in such manner, at such price and on such other terms as the nominee determines in good faith; and
 - (ii) remits to IOOF the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).
- (c) Promptly after the last sale of IOOF Shares in accordance with clause 5.7(b), IOOF will pay to each Ineligible Overseas Shareholder the proportion of the net proceeds of sale received by IOOF pursuant to clause 5.7(b)(ii) to which that Ineligible Overseas Shareholder is entitled.
- (d) Neither IOOF or SFG gives any assurance as to the price that will be achieved for the sale of New IOOF Shares described in clause 5.7(b). The sale of the New IOOF Shares under this clause 5.7 will be at the risk of the Ineligible Overseas Shareholder.
- (e) IOOF must appoint the nominee at least two weeks prior to the Scheme Meeting.

5.8 New IOOF Shares

IOOF covenants in favour of SFG (in its own right and on behalf of each Scheme Shareholder) that:

- (a) the New IOOF Shares issued as Share Offer Consideration will, on their issue, rank equally in all respects with all other IOOF Shares, and the New IOOF Shares issued as Share Offer Consideration will be entitled to participate in and receive the IOOF FY14 Dividend. If the Implementation Date occurs after the record date in respect of the IOOF FY14 Dividend, SFG may declare and pay the SFG FY14 Dividend and the SFG Special Dividend in accordance with clause 4.4;
- (b) it will use best endeavours to ensure that the New IOOF Shares issued as Share Offer Consideration will be listed for quotation on the official list of the ASX with effect from the Business Day after the Effective Date (or such later date as ASX may require), initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+3) settlement basis; and
- (c) on issue, each New IOOF Share will be fully paid and, to the extent within the control of IOOF, free from any Encumbrance.

6. Conduct of business and co-operation

6.1 Conduct of SFG's business

- (a) From the date of this agreement up to and including the Implementation Date, SFG must:
 - (i) procure that each member of the SFG Group:
 - A. conducts its businesses and operations in the ordinary and usual course and substantially consistent (subject to any material applicable laws, regulations and licence conditions) with the manner in which each such business and operation is conducted prior to the date of this agreement, including to use all reasonable endeavours to in all material respects:
 - 1) preserve intact its current business organisation;
 - 2) keep available the service of substantially all of its current officers and employees;
 - 3) preserve its relationship with customers, suppliers licensors, licensees, Regulatory Authorities and others having business dealings with it;
 - 4) comply with all Material Contracts to which a member of the SFG Group is a party; and
 - 5) maintain its business and assets, including maintaining at least its current level of insurance over its business and assets, provided such level of insurance continues to be generally available and at a cost not materially greater than the cost of insurance over its business and assets prior to the date of this agreement; and
 - B. conducts its businesses and operations substantially in accordance with all material applicable laws and regulations; and
 - (ii) ensure that no SFG Prescribed Occurrence occurs.
- (b) The obligations of SFG under clause 6.1(a) do not apply to any action undertaken by SFG:
 - (i) in relation to any matter required to be done or procured by SFG or another member of the SFG Group pursuant to, or which is otherwise expressly permitted by, the Transaction Documents;
 - (ii) for which IOOF has provided its prior written consent (such consent not to be unreasonably withheld or delayed);
 - (iii) which arises as a result of court or Regulatory Authority order, injunction or undertaking or otherwise required in order to comply with applicable law; or
 - (iv) which is in accordance with contractual obligations that existed at the date of this agreement, provided such obligations have been fairly disclosed in the SFG Due Diligence Material.

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- (c) For the avoidance of doubt and subject to clause 7, nothing in this clause 6.1 restricts the ability of SFG to respond to a Competing Proposal.

6.2 Conduct of IOOF's business

- (a) From the date of this agreement up to and including the Implementation Date, IOOF must:
- (i) procure that each member of the IOOF Group:
- A. conducts its businesses and operations in the ordinary and usual course and substantially consistent (subject to any material applicable laws, regulations and licence conditions) with the manner in which each such business and operation is conducted prior to the date of this agreement, including to use all reasonable endeavours to in all material respects:
- 1) preserve intact its current business organisation;
 - 2) keep available the service of substantially all of its current officers and employees;
 - 3) preserve its relationship with customers, suppliers licensors, licensees, Regulatory Authorities and others having business dealings with it;
 - 4) comply with all material contracts, being any contract material to the IOOF Group as a whole or any operating Subsidiary, to which a member of the IOOF Group is a party; and
 - 5) maintain its business and assets, including maintaining at least its current level of insurance over its business and assets, provided such level of insurance continues to be generally available and at a cost not materially greater than the cost of insurance over its business and assets prior to the date of this agreement; and
- B. conducts its businesses and operations substantially in accordance with all material applicable laws and regulations; and
- (ii) ensure that no IOOF Prescribed Occurrence occurs.
- (b) The obligations of IOOF under clause 6.2(a) do not apply to any action undertaken by IOOF:
- (i) in relation to any matter required to be done or procured by IOOF or another member of the IOOF Group pursuant to, or which is otherwise expressly permitted by, the Transaction Documents;
 - (ii) for which SFG has provided its prior written consent (such consent not to be unreasonably withheld or delayed);
 - (iii) which arises as a result of court or Regulatory Authority order, injunction or undertaking or otherwise required in order to comply with applicable law; or

- (iv) which is in accordance with contractual obligations that existed at the date of this agreement, provided such obligations have been fairly disclosed in the IOOF Due Diligence Material.

6.3 Material Contracts

- (a) The parties agree that:
 - (i) SFG must, as soon as practicable after the date of this agreement, apply to the counterparties to certain contracts that the parties have agreed in writing prior to the date of this agreement will apply to this clause 6.3, and to which a member of the SFG Group is a party, for consents in relation to the Scheme; and
 - (ii) each party must use reasonable efforts to obtain the consents referred to in clause 6.3(a) as expeditiously as possible and, in any event, before the Second Court Date and to use reasonable efforts to ensure that once obtained, the consents are not withdrawn, cancelled or revoked.
- (b) For the avoidance of doubt, each party agrees that either party's failure to obtain the consents referred to in clause 6.3(a) and clause 6.3(b) is not a termination event in accordance with clause 13.

7. Recommendation, intentions and announcements

7.1 SFG Board Recommendation and Voting Intention

- (a) SFG must ensure that the Announcement and the Explanatory Memorandum state that each SFG Director:
 - (i) recommends that SFG Shareholders vote in favour of the Scheme Resolutions (**Recommendation**); and
 - (ii) intends to cause any SFG Shares in which they have a Relevant Interest to be voted in favour of the Scheme Resolutions (**Voting Intention**),
 which statements must not be qualified in any way other than by words to the effect of "in the absence of a Superior Proposal" and "subject to the Independent Expert concluding that the Scheme is in the best interests of SFG Shareholders".
- (b) IOOF acknowledges that each SFG Director may, subject to the terms of this agreement, publicly (or otherwise) withdraw, change or in any way qualify their Recommendation or Voting Intention if:
 - (i) a Superior Proposal is made; or
 - (ii) the Independent Expert concludes in the Independent Expert's Report (either in its initial report or any subsequent update of its report) that the Scheme is not in the best interests of the SFG Shareholders.

7.2 Confirmation

SFG represents and warrants to IOOF that each SFG Director has confirmed their agreement not to do anything inconsistent with their Recommendation and Voting Intention (including withdrawing, changing or in any way qualifying their Recommendation or Voting Intention) other than in the circumstances referred to in clause 7.1

7.3 Announcement

Immediately after the execution of this agreement SFG and IOOF must issue the Announcement to the ASX.

8. Exclusivity arrangements

8.1 No existing discussions

SFG represents and warrants that, other than the discussions with IOOF in respect of the Scheme, it is not currently in negotiations or discussions in respect of any Competing Proposal with any person.

8.2 No shop

During the Exclusivity Period, SFG must not, and must ensure that its Representatives and its Related Bodies Corporate do not, except with the prior written consent of IOOF, directly or indirectly solicit, invite, initiate or encourage any Competing Proposal or any inquiry, expression of interest, offer, proposal, negotiations or discussions by or with any Third Party in relation to, or that may reasonably be expected to encourage or lead to the making of, an actual or potential Competing Proposal, or communicate any intention to any person to do any of those things.

8.3 No talk and no due diligence

During the Exclusivity Period, SFG must not, and must ensure that its Representatives and its Related Bodies Corporate do not, except with the prior written consent of IOOF, directly or indirectly:

- (a) enter into, continue or participate in any negotiations or discussions with, or accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding with, any Third Party in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- (b) make available to any Third Party, or permit any Third Party to receive, any non-public information relating to any member of the SFG Group in connection with such Third Party formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a Competing Proposal; or
- (c) communicate to any person an intention to do anything referred to in this clause 8.3,

unless the SFG Board determines, in good faith, after taking advice from the SFG Board's external legal and financial advisors that such Competing Proposal could reasonably be considered to become a Superior Proposal, failing to do so would be reasonably likely to constitute a breach of their fiduciary or statutory duties and provided that the Competing Proposal was not encouraged, solicited, invited or initiated by SFG or its Representatives in contravention of clause 8.1.

8.4 Notice of Competing Proposal

During the Exclusivity Period, SFG must promptly, and in any event no later than the Business Day following the relevant event:

- (a) notify IOOF if it or any of its Representatives or Related Bodies Corporate:
 - (i) receives a bona fide expression of interest, offer or proposal from any person which is or may reasonably be expected to lead to a Competing

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Proposal and must disclose to IOOF the identity of the acquirer, proposed price or implied value, form of consideration and conditions; or

- (ii) provides any information relating to SFG or any of its Related Bodies Corporate or any of their businesses or operations to any person for a purpose which SFG knows or would reasonably expect to relate to a current or future Competing Proposal; and
- (b) provide IOOF with any information provided by any of its Representatives or Related Bodies Corporate to any person as contemplated in clause 8.4(a)(ii).

8.5 IOOF's right of last offer

- (a) Without limitation to any other part of this agreement, SFG must not enter into a binding implementation agreement which relates to a Competing Proposal (or any other agreement in relation to a Competing Proposal which provides for the payment of a break fee (or similar payment) to a Third Party) and ensure that each member of the SFG Board does not change its Recommendation or Voting Intention as a consequence of receiving a Competing Proposal, unless:
 - (i) SFG has complied with its obligations under this clause 8;
 - (ii) SFG has determined that the Competing Proposal would be a Superior Proposal and has notified IOOF of this determination; and
 - (iii) SFG has provided IOOF with 3 clear Business Days to submit a written proposal to revise the Transaction. If IOOF submits a written proposal to revise the Transaction in this period (Revised Proposal), SFG must ensure that the SFG Board considers in good faith, and receives advice from SFG's external legal and financial advisers in relation to, whether the proposed revisions would make the Transaction at least as favourable to SFG Shareholders as the Competing Proposal. If it would, the parties must each use best endeavours to, as soon as practicable, agree the necessary amendments to this agreement, and take all other necessary steps, to give effect to the change to the Transaction subject to any Superior Proposal.
- (b) For the avoidance of doubt:
 - (i) IOOF's right to submit a Revised Proposal will continue to apply until SFG enters into a binding implementation agreement in relation to a Competing Proposal in accordance with clause 8.5(a); and
 - (ii) each successive modification of any offer of proposal for a Competing Proposal will constitute a new offer or proposal for a Competing Proposal for the purposes of the requirement under clause 8.4 and will initiate an additional 3 Business Day period under clause 8.5(a)(iii).

8.6 Normal provision of information

Nothing in this clause 8 prevents SFG from:

- (a) providing information to its Representatives;
- (b) providing information to any Regulatory Authority;
- (c) providing information to its auditors, advisers, customers, joint venturers and suppliers acting in that capacity in the ordinary course of business;

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- (d) providing information to its advisers acting in that capacity in connection with the Transaction or a Competing Proposal;
- (e) providing information to be required to be provided by law or any Regulatory Authority; or
- (f) making presentations to brokers, portfolio investors, analysts and other Third Parties in the ordinary course of business.

9. Break Fee

9.1 Rationale

SFG acknowledges and agrees for the purposes of this clause 9 as follows:

- (a) IOOF has required the inclusion of this clause 9 in the absence of which it would not have entered into this agreement or otherwise agreed to implement the Scheme, subject to the terms and conditions in this agreement;
- (b) SFG and the SFG Board believe that the Scheme will provide significant benefits to it and the SFG Shareholders, and that it is reasonable and appropriate that SFG agrees to the inclusion of this clause 9 in order to secure IOOF's execution of this agreement and its agreement to implement the Scheme, subject to the terms and conditions in this agreement; and
- (c) the amount payable by SFG pursuant to clause 9.2 is to be purely and strictly compensatory in nature and represents a reasonable estimate of the compensation so as to compensate IOOF for the following:
 - (i) reasonable advisory costs relating to the Scheme;
 - (ii) costs of management and directors' time;
 - (iii) reasonable out-of-pocket expenses relating to the Scheme;
 - (iv) reasonable opportunity costs incurred by IOOF in pursuing the Scheme or in not pursuing other alternative acquisitions or strategic initiatives which IOOF could have developed to further its business and objectives; and
 - (v) commitment fees and other financing costs relating to the financing of the Scheme.

Both parties have received legal advice on this agreement and the operation of this clause 9.

9.2 Payment of Break Fee

SFG agrees to pay IOOF the Break Fee without set-off or withholding if, at any time after the date of this agreement, the Scheme does not become Effective because:

- (a) **(Competing Proposal)** an actual, proposed or potential Competing Proposal of any kind is announced during the Exclusivity Period (whether or not such proposal is stated to be subject to any pre-conditions) and within 12 months of such announcement, the Third Party proposing the Competing Proposal or any Associate of that Third Party:
 - (i) completes a Competing Proposal of a kind referred to in any of the paragraphs (b), (c) or (d) of the definition of Competing Proposal; or

- (ii) enters into an agreement, arrangement or understanding with SFG or SFG Directors of the kind referred to in paragraph (e) of the definition of Competing Proposal;
- (b) **(change of recommendation)** a majority of SFG Directors fail to recommend the Scheme or publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Competing Proposal, except if a majority of the SFG Directors change their Recommendation following the receipt of the Independent Expert's Report which states that, in the opinion of the Independent Expert, the Scheme is not in the best interests of SFG Shareholders; or
- (c) **(breach of clause 8)** SFG is in breach of its obligations under clause 8 and does not cease the conduct which caused the breach within 2 Business Days following written notice from IOOF outlining the nature of the breach.

9.3 Timing of payment

- (a) A demand by IOOF for payment of the Break Fee under clause 9.2 must:
 - (i) be in writing;
 - (ii) be made after the occurrence of the event in that clause giving rise to the right to payment;
 - (iii) state the circumstances which give rise to the demand; and
 - (iv) nominate an account in the name of IOOF or a Subsidiary into which SFG is to pay the Break Fee; and
- (b) SFG must pay the Break Fee into the account nominated by IOOF, without set-off or withholding, within 5 Business Days after receiving a demand for payment where IOOF is entitled under clause 9.2 to the Break Fee.

9.4 Compliance with law

- (a) This clause 9 does not impose an obligation on SFG to pay the Break Fee to the extent (and only to the extent) that the obligation to pay the Break Fee:
 - (i) is declared by the Takeovers Panel to constitute "unacceptable circumstances" within the meaning of the Corporations Act;
 - (ii) is determined to be unenforceable or unlawful by a Court; and
 - (iii) after all proper avenues of appeal and review, judicial and otherwise, have been exhausted.
- (b) The parties must not make or cause to be made, any application to the Takeovers Panel or a Court for or in relation to a declaration referred to in this clause 9.4.

9.5 SFG's limitation of liability

Notwithstanding any other provision of this agreement:

- (a) the maximum liability of SFG to IOOF under or in connection with a breach of this clause 9 will be the amount of the Break Fee; and
- (b) the maximum liability of SFG under or in connection with this agreement other than under clause 9.5(a) will be \$2,000,000,

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and, other than under clauses 9.5(a) and 9.5(b), no further damages, fees, expenses or reimbursements of any kind will be payable by SFG under or in connection with this agreement.

9.6 No Break Fee if Scheme Effective

Despite anything to the contrary in this agreement, the Break Fee will not be payable to IOOF if the Scheme becomes Effective, notwithstanding the occurrence of any event in clause 9.2 and, if the Break Fee has already been paid, it must be refunded by IOOF.

9.7 Survival

Any accrued obligations under this clause 9 survive termination of this agreement.

10. Liability of directors and employees

10.1 Liability of directors and employees

To the maximum extent permitted by law, each party (**first party**) releases all rights against, and agrees that it will not make any claim against, each past or present director and employee of the other party of this agreement (**other party**) in relation to information provided to the first party in relation to the transactions contemplated by this agreement to the extent that such director or employee has acted in good faith and has not engaged in wilful misconduct.

10.2 Directors' and officers' insurance

IOOF acknowledges that SFG will:

- (a) arrange for the cover provided under the Policy for a further period until the End Date; and
- (b) by no later than the Implementation Date, arrange for the cover provided under the Policy to be amended so as to provide run off cover in accordance with the terms of the Policy for a 7 year period from the end of the term of the Policy, and pay all premiums required so as to ensure that insurance cover is provided under the Policy on those terms until that date.

10.3 Obligations in relation to directors' and officers' insurance

From the Implementation Date, SFG must not:

- (a) vary or cancel the Policy; or
- (b) unless required under the Policy, commit any act or omission that may prejudice any claim by a Beneficiary under the Policy as extended pursuant to clause 10.2(b) above.

10.4 Directors' and officers' indemnities

- (a) Without limiting any other term of this agreement, from the Effective Date for the Scheme, IOOF undertakes that it will, in respect of each deed of indemnity, access and insurance (**Relevant Deed**) made by an SFG Group entity (**Relevant Entity**) in favour of a director or officer of any SFG Group entity (**Indemnified Person**) from time to time procure that:
 - (i) the Relevant Entity complies with the Relevant Deed; and
 - (ii) to the extent that the Relevant Entity ceases to exist after the Implementation Date, each Indemnified Person has the benefit of an

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indemnity from IOOF on terms no less favourable than those contained in the Relevant Deed as at the Effective Date.

- (b) This clause 10.4 applies to the maximum extent permitted by the Corporations Act and will be read down accordingly.

10.5 Benefit

IOOF acknowledges that SFG holds the benefit of this clause 10 to the extent it relates to each director and officer of an SFG Group entity as trustee for them, and, as such, each such director or officer of an SFG Group entity may enforce this clause 10 against IOOF.

11. Representations, warranties and indemnities

11.1 Representations and warranties by IOOF

IOOF represents and warrants to SFG (on its own behalf and separately as trustee or nominee for each of the SFG Indemnified Parties):

- (a) on each date from the date of this agreement until (and including) the Second Court Date that each of the below statements is true and correct:
- (i) IOOF is a validly existing corporation registered under the laws of its place of incorporation;
 - (ii) the execution and delivery by IOOF of the Transaction Documents to which IOOF is party has been properly authorised by all necessary corporate action and IOOF has full corporate power and lawful authority to execute and deliver such Transaction Documents and to perform or cause to be performed its obligations under such Transaction Documents;
 - (iii) subject to laws generally affecting creditors' rights and the principles of equity, the Transaction Documents to which IOOF is party constitute legal, valid and binding obligations on it and do not conflict with or result in a breach of or default under:
 - A. the constitution or equivalent constituent documents of IOOF or any of its Subsidiaries; or
 - B. any writ, order or injunction, judgment, law, rule or regulation to which IOOF or any of its Subsidiaries is party, or by which IOOF or any of its Subsidiaries is bound and which could reasonably be expected to have a material adverse effect on IOOF's ability to perform its obligations under this agreement; and
 - (iv) other than as expressly contemplated by clause 3, no shareholder or Regulatory Authority approvals are required to be obtained by the IOOF Group in order for it to execute and perform the Transaction Documents to which it is a party;
- (b) as at the date of this agreement there are:
- (i) 232,118,034 IOOF Shares on issue; and
 - (iii) 649,044 IOOF Options on issue;
- and IOOF has not issued (and is not required to issue) any other securities or instruments which are still outstanding (or may become outstanding) and which may

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- convert into IOOF Shares other than in connection with a dividend reinvestment plan (including pursuant to any underwriting of that plan), an employee incentive arrangement (including any security issued upon conversion or exercise of rights attaching to any security issued under an employee incentive arrangement);
- (c) on the date of this agreement there is no material Encumbrance over all or any of its (or any of its Subsidiaries) material assets or revenues (other than assets which are held in a fiduciary capacity for third parties;
 - (d) on the date of this agreement and other than as disclosed by IOOF to SFG in writing, neither it nor any of its Subsidiaries is in default under any material contract, being any contract material to the IOOF Group as a whole or any operating Subsidiary, to which a member of the IOOF Group is a party nor has anything occurred which is or would be with the giving of notice or lapse of time constitute an event of default, prepayment or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such material contract with such an effect;
 - (e) on the date of this agreement, the First Court Date, the date the Explanatory Memorandum is despatched, the date of the Scheme Meetings and the Second Court Date, IOOF is not aware of any material information relating to the IOOF Group's business, liabilities, assets, financial or trading position, prospects or profitability of as a whole that has not been disclosed to SFG and is objectively necessary for SFG to make an informed decision as to whether to enter into this agreement or proceed with the Scheme;
 - (f) on the First Court Date, the date the Explanatory Memorandum is despatched, the date of the Scheme Meetings and the Second Court Date:
 - (i) the IOOF Information has been prepared and included in the Explanatory Memorandum in good faith and on the understanding that:
 - A. SFG and the SFG Indemnified Parties have relied on that information for the purposes of considering and approving the SFG Information in the Explanatory Memorandum;
 - B. the Independent Expert has relied on the information for the purposes of preparing the Independent Expert's Report; and
 - C. the Investigating Accountant has relied on the information for the purposes of preparing the Investigating Accountant's Report;
 - (ii) the IOOF Information complies in all material respects with relevant laws (including the Corporations Act, Listing Rules and relevant Regulatory Guides);
 - (iii) the IOOF Information (other than to the extent that it consists of information relating to SFG that was provided by or on behalf of SFG, or has been extracted from public announcements made by SFG to ASX regarding the SFG Group) in the form and context in which it appears in the Explanatory Memorandum is not misleading or deceptive in any material respect and does not contain any material omission;
 - (iv) IOOF has complied with its obligations under clause 4.2(h); and
 - (v) all information provided by or on behalf of IOOF to the Independent Expert or the Investigating Accountant to enable the Independent Expert's Report and the Investigating Accountant's Report, respectively, to be prepared has been prepared and provided in good faith and on the understanding that the Independent Expert and the Investigating

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Accountant have relied on the information for the purposes of preparing the Independent Expert's Report and the Investigating Accountant's Report, respectively;

- (g) on the date of this agreement, the First Court Date, the date the Explanatory Memorandum is despatched, the date of the Scheme Meetings and the Second Court Date, following the making by IOOF of the Announcement to ASX pursuant to clause 7.3, IOOF has complied in all respects with its continuous disclosure obligations under Listing Rule 3.1 and is not withholding any information pursuant to Listing Rule 3.1A;
- (h) on each date from the date of this agreement until (and including) the Implementation Date that none of the following events has occurred in relation to IOOF:
 - (i) a receiver, receiver and manager, liquidator, provisional liquidator, administrator or trustee is appointed in respect of IOOF or any of its assets or anyone else is appointed who (whether or not as agent for IOOF) is in possession, or has control, of any of IOOF's assets for the purpose of enforcing an Encumbrance;
 - (ii) an application is made to court or a resolution is passed or an order is made for the winding up or dissolution of IOOF;
 - (iii) IOOF proposes or takes any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them; or
 - (iv) IOOF stops paying its debts when they become due or is declared or taken under any applicable law to be insolvent or IOOF's board of directors resolves that it is, or is likely to become at some future time, insolvent;
- (i) as at 8:00am on the Second Court Date, IOOF will have sufficient cash on its balance sheet, or financial commitments available to it on an unconditional basis (other than conditions relating to the approval of the Court and related procedural matters or documentary requirements which, by their terms or nature, can only be satisfied or performed after the Second Court Date), to ensure that the Maximum Cash Consideration is paid to Scheme Shareholders in accordance with the terms of this agreement, the Scheme and the Deed Poll;
- (j) IOOF will have available to it on the Implementation Date sufficient cash amounts (including debt facilities) to ensure that the Maximum Cash Consideration is paid to Scheme Shareholders in accordance with the terms of this agreement, the Scheme and the Deed Poll; and
- (k) any statement of opinion or belief contained in IOOF Information is honestly held and there are reasonable grounds for holding the opinion or belief.

11.2 Qualification of IOOF Warranties

The IOOF Warranties and the indemnity under clause 11.7, are subject to matters which have been fairly disclosed in the IOOF Due Diligence Material or IOOF's announcements to the ASX regarding the IOOF Group prior to entry into this agreement.

11.3 IOOF indemnity

- (a) IOOF acknowledges that in entering into this agreement SFG and the SFG Indemnified Parties have relied on IOOF Warranties.

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- (b) IOOF indemnifies SFG (on its own behalf and separately as trustee for each of the SFG Indemnified Parties) against any loss suffered or incurred by reason of any breach of any of IOOF Warranties.

11.4 IOOF warranty certificate

IOOF must provide to SFG by 8.00am on the Second Court Date a certificate signed by a director of IOOF and made in accordance with a resolution of the IOOF Board stating, as at that date, that the representations or warranties given by IOOF in clause 11.1 remain true and correct or, if any such representation or warranty is not true and correct as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or incorrect.

11.5 Representations and warranties by SFG

SFG represents and warrants to IOOF (on its own behalf and separately as trustee or nominee for each of the IOOF Indemnified Parties):

- (a) on each date from the date of this agreement until (and including) the Second Court Date that each of the below statements is true and correct:
- (i) SFG is a validly existing corporation registered under the laws of its place of incorporation;
 - (ii) the execution and delivery by SFG of the Transaction Documents to which SFG is party has been properly authorised by all necessary corporate action and SFG has full corporate power and lawful authority to execute and deliver such Transaction Documents and to perform or cause to be performed its obligations under such Transaction Documents;
 - (iii) subject to laws generally affecting creditors' rights and the principles of equity, the Transaction Documents to which SFG is party constitute legal, valid and binding obligations on SFG and do not conflict with or result in a breach of or default under:
 - A. the constitution or equivalent constituent documents of SFG or any of its Subsidiaries; or
 - B. any writ, order or injunction, judgment, law, rule or regulation to which SFG or any of its Subsidiaries is party, or by which SFG or any of its Subsidiaries is bound and which could reasonably be expected to have a material adverse effect on SFG's ability to perform its obligations under this agreement;
 - (iv) other than as expressly contemplated by clause 3, no shareholder or Regulatory Authority approvals are required to be obtained by the SFG Group in order for it to execute and perform the Transaction Documents to which it is a party;
- (b) as at the date of this agreement there are:
- (i) 734,531,160 SFG Shares on issue; and
 - (ii) 6,501,913 Performance Rights on issue,

and SFG has not issued (and is not required to issue) any other securities or instruments which are still outstanding (or may become outstanding) and which may convert into SFG Shares other than in connection with a dividend reinvestment plan (including pursuant to any underwriting of that plan), an employee incentive

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arrangement (including any security issued upon conversion or exercise of rights attaching to any security issued under an employee incentive arrangement) or any earn-out in relation to the share acquisition agreement dated 23 February 2013 and entered into by SFG in connection with the acquisition of the Lachlan Partners group;

- (c) on the date of this agreement there is no material Encumbrance over all or any of its (or any of its Subsidiaries) material assets or revenues (other than assets which are held in a fiduciary capacity for third parties);
- (d) on the date of this agreement and other than as disclosed by SFG to IOOF in writing, neither it nor any of its Subsidiaries is in default under any Material Contract to which a member of the SFG Group is a party nor has anything occurred which is or would be with the giving of notice or lapse of time constitute an event of default, prepayment or similar event, or give another party thereto a termination right or right to accelerate any right or obligation, under any such Material Contract with such an effect;
- (e) on the date of this agreement and as far as SFG is aware, no information has been deliberately omitted from, or included in, the SFG Due Diligence Materials that SFG acting reasonably consider would render the SFG Due Diligence Materials taken as a whole misleading in any material respect. For the purposes of this warranty, the SFG Due Diligence Materials do not include:
 - (i) any information, document, representation, statement, view or opinion to the extent that it contains or expresses a forecast, prediction or projection or is otherwise forward looking after the date of this agreement; and
 - (ii) any information, document, representation, statement, view or opinion to the extent that the same was not prepared, made or expressed by SFG, a member of the SFG Group or their Representatives;
- (f) on the First Court Date, the date the Explanatory Memorandum is despatched, the date of the Scheme Meetings and the Second Court Date;
 - (i) the SFG Information has been prepared and included in the Explanatory Memorandum in good faith and on the understanding that:
 - A. IOOF and the IOOF Indemnified Parties have relied on that information for the purposes of considering and approving the IOOF Information in the Explanatory Memorandum;
 - B. the Independent Expert has relied on the information for the purposes of preparing the Independent Expert's Report; and
 - C. the Investigating Accountant has relied on the information for the purposes of preparing the Investigating Accountant's Report;
 - (ii) the SFG Information complies in all material respects with relevant laws (including the Corporations Act, Listing Rules and relevant Regulatory Guides);
 - (iii) the SFG Information (other than to the extent that it consists of information relating to IOOF that was provided by or on behalf of IOOF, or has been extracted from public announcements made by IOOF to ASX regarding the IOOF Group) in the form and context in which it appears in the Explanatory Memorandum is not misleading or deceptive in any material respect and does not contain any material omission;

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- (iv) SFG has complied with its obligations under clause 4.1(l); and
- (v) all information provided by or on behalf of SFG to the Independent Expert or the Investigating Accountant to enable the Independent Expert's Report and the Investigating Accountant's Report, respectively, to be prepared has been prepared and provided in good faith and on the understanding that the Independent Expert and the Investigating Accountant have relied on the information for the purposes of preparing the Independent Expert's Report and the Investigating Accountant's Report, respectively;
- (g) on the date of this agreement, the First Court Date, the date the Explanatory Memorandum is despatched, the date of the Scheme Meetings and the Second Court Date, following the making by SFG of the Announcement to ASX pursuant to clause 7.3, SFG has complied in all respects with its continuous disclosure obligations under Listing Rule 3.1 and is not withholding any information pursuant to Listing Rule 3.1A; and
- (h) on each date from the date of this agreement until (and including) the Implementation Date that none of the following events has occurred in relation to SFG:
 - (i) a receiver, receiver and manager, liquidator, provisional liquidator, administrator or trustee is appointed in respect of SFG or any of its assets or anyone else is appointed who (whether or not as agent for SFG) is in possession, or has control, of any of SFG's assets for the purpose of enforcing an Encumbrance;
 - (ii) an application is made to court or a resolution is passed or an order is made for the winding up or dissolution of SFG;
 - (iii) SFG proposes or takes any steps to implement a scheme of arrangement or other compromise or arrangement with its creditors or any class of them; or
 - (iv) SFG stops paying its debts when they become due or is declared or taken under any applicable law to be insolvent or SFG's board of directors resolves that it is, or is likely to become at some future time, insolvent; and
- (i) any statement of opinion or belief contained in SFG Information is honestly held and there are reasonable grounds for holding the opinion or belief.

11.6 Qualification of SFG Warranties

The SFG Warranties and the indemnity under clause 11.7, are subject to matters which have been fairly disclosed in the SFG Due Diligence Material or SFG's announcements to the ASX regarding the SFG Group prior to entry into this agreement.

11.7 SFG indemnity

- (a) SFG acknowledges that in entering into this agreement IOOF and IOOF Indemnified Parties have relied on the SFG Warranties.
- (b) SFG indemnifies IOOF (on its own behalf and separately as trustee for each of IOOF Indemnified Parties) against any loss suffered or incurred by reason of any breach of any of the SFG Warranties.

11.8 SFG warranty certificate

SFG must provide to IOOF by 8.00am on the Second Court Date a certificate signed by a director of SFG and made in accordance with a resolution of the SFG Board stating, as at that date, that the representations or warranties given by SFG in clause 11.5 remain true and correct or, if any such representation or warranty is not true and correct as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or incorrect.

11.9 Notifications

Each party will promptly advise the other in writing if it becomes aware of any fact, matter or circumstance which constitutes or may constitute a breach of any of the representations or warranties given by it under this clause 11.

11.10 Status of representations and warranties

Each representation and warranty in this clause 11:

- (a) is severable;
- (b) will survive the termination of this agreement; and
- (c) is given with the intent that liability thereunder will not be confined to breaches which are discovered prior to the date of termination of this agreement.

11.11 Status and enforcement of indemnities

- (a) Each indemnity in this agreement is a continuing obligation, separate and independent from the other obligations of the parties, and survives termination, completion or expiration of this agreement; and
- (b) it is not necessary for a party to incur expense or to make any payment before enforcing a right of indemnity conferred by this agreement.

12. Confidentiality and communications**12.1 Confidentiality Deed**

- (a) Each party acknowledges and agrees that it continues to be bound by the Confidentiality Deed after the date of this agreement.
- (b) The parties acknowledge and agree that the terms of this agreement will prevail over the terms of the Confidentiality Deed to the extent of any inconsistency.

12.2 Survival of obligations

The rights and obligations of the parties under the Confidentiality Deed survive termination of this agreement.

12.3 Disclosure on termination of agreement

The parties agree that, if this agreement is terminated under clause 13, any party may disclose:

- (a) the fact that this agreement has been terminated, where such disclosure is required by the relevant listing rules or is in the reasonable opinion of that party required to ensure that the market in its securities is properly informed; and

- (b) the fact that this agreement has been terminated to ASIC.

13. Termination

13.1 Termination

- (a) This agreement may only be terminated if:
- (i) the parties agree in writing to terminate this agreement; or
 - (ii) a termination event described in the following table occurs; and :
 - A. if one party is specified in the second column of the following table opposite the termination event, by that party providing written notice to each other party at any time before 8.00 am on the Second Court Date;
 - B. if more than one party is specified in the second column of the following table opposite the termination event, by any of those parties providing written notice to the other party at any time before 8.00 am on the Second Court Date.
- (b) A party (Terminating **Party**) may only terminate this agreement in reliance on the termination event (other than the termination event described in item (i) of the table below):
- (i) if that Terminating Party has first given the other parties written notice of the occurrence of the termination event, including relevant details of the facts, matters and circumstances giving rise to the termination event (**First Notice**); and
 - (ii) the termination event has not been remedied to the reasonable satisfaction of that Terminating Party by the earlier of 5 Business Days from the date on which the First Notice was given and 8.00 am on the date one Business Day before the Second Court Date.

Termination event	Who may terminate
(i) if a party terminates this agreement in accordance with and pursuant to clauses 3.6(a) or 3.6(b);	IOOF or SFG
(ii) if SFG is in material breach of any clause of this agreement (other than clauses 6.3, 7, the SFG Warranties or in relation to an SFG Prescribed Occurrence);	IOOF
(iii) if IOOF is in material breach of any clause of this agreement (other than the IOOF Warranties or in relation to an IOOF Prescribed Occurrence);	SFG
(iv) if SFG is in breach of clause 7;	IOOF
(v) if the SFG Warranties <ul style="list-style-type: none"> A. that are qualified as to materiality, are not true and correct; and 	IOOF

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B. that are not so qualified, are not true and correct in all material respects, as at the time they are given;	
(vi) if the IOOF Warranties: A. that are qualified as to materiality, are not true and correct; and B. that are not so qualified, are not true and correct in all material respects, as at the time they are given;	SFG
(vii) if an SFG Prescribed Occurrence occurs;	IOOF
(viii) if an IOOF Prescribed Occurrence occurs;	SFG
(ix) if a majority of SFG Directors publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Competing Proposal, for any reason, whether or not permitted to do so under this agreement;	IOOF
(x) if a majority of SFG Directors publicly change, withdraw or in any way qualify their Recommendation or Voting Intention or publicly recommend a Superior Proposal, but only where such change, withdrawal or recommendation occurs or is made in accordance with the rights and obligations of SFG and the SFG Board pursuant to the terms of this agreement; or	SFG
(xi) if agreed to in writing by SFG and IOOF.	SFG and IOOF

13.2 Effect of termination

If this agreement is terminated:

- (a) the provisions of this agreement shall cease to have effect except for the provisions of clauses 1, 9, 11, 12, 13.2, and 14 to 16 (inclusive), 17.1 to 17.6 (inclusive), 17.8 to 17.12 (inclusive) and 18 which will survive termination; and
- (b) each party retains the rights it has against the others in respect of any breach of this agreement occurring before termination.

13.3 Remedies

- (a) The parties acknowledge that damages may not be a sufficient remedy for breach of this agreement. Specific performance, injunctive relief or any other remedies

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which would otherwise be available in equity or law are available as a remedy for a breach or threatened breach of this agreement by any party, notwithstanding the ability of the other party to terminate this agreement or seek damages for such a breach or threatened breach .

- (b) Neither party (Restrained Party) will be considered to be in breach of this agreement (including for the purposes of items (ii), (iii) or (iv) of the table in clause 13.1) and no party may make a claim against the Restrained Party for breach of this agreement, in circumstances where the Restrained Party is prevented by an order of an Australian court from performing an obligation under this agreement.

14. Notices

14.1 How notice to be given

Each communication (including each notice, consent, approval, request and demand) under or in connection with this agreement:

- (a) may be given by personal service, post or facsimile or email;
- (b) must be in writing;
- (c) must be addressed as follows (or as otherwise notified by that party to each other party from time to time):
- (i) if to SFG: SFG Australia Limited
- Address: Level 18, 50 Bridge Street, Sydney NSW 2000
- Fax number: +61 2 9919 8899
- Attention: Tony Fenning
- with a copy in each case to:
- Email: jalgar@claytonutz.com
- (ii) if to IOOF: IOOF Holdings Limited
- Address: Level 6, 161 Collins Street, Melbourne VIC 3000
- Attention: Gary Riordan, General Counsel
- (d) (in the case of personal service, post or facsimile) must be signed by the party making it or (on that party's behalf) by the solicitor for, or any attorney, director, secretary or authorised agent of, that party; and
- (e) (in the case of email) must be in pdf or other format that is a scanned image of the original of the communication, including a handwritten signature, and be attached to an email that states that the attachment is a communication under this agreement; and
- (f) must be delivered by hand or posted by prepaid post to the address, sent by fax to the number, or sent by email to the email address, of the addressee, in accordance with this clause 14.1.

14.2 When notice taken to be received

Each communication (including each notice, consent, approval, request and demand) under or in connection with this agreement is taken to be received by the addressee:

- (a) (in the case of prepaid post sent to an address in the same country) on the third day after the date of posting;
- (b) (in the case of prepaid post sent to an address in another country) on the fifth day after the date of posting by airmail;
- (c) (in the case of fax) at the time in the place to which it is sent equivalent to the time shown on the transmission confirmation report produced by the fax machine from which it was sent; and
- (d) (in the case of delivery by hand) on delivery; and
- (e) (in the case of email) unless the party sending the email knows or reasonably ought to suspect that the email and the attached communication were not delivered to the addressee's domain specified in the email address notified for the purposes of clause 14.1, 4 hours after the email was sent,

but if the communication would otherwise be taken to be received on a day that is not a working day or after 5.00 pm, it is taken to be received at 9.00 am on the next working day ("working day" meaning a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally, in the place to which the communication is posted, sent or delivered).

15. GST

15.1 Interpretation

- (a) Except where the context suggests otherwise, and subject to clause 15.1(b), terms used in this clause 15 have the meanings given to those terms by the A New Tax System (Goods and Services Tax) Act 1999 (as amended from time to time).
- (b) "Input tax credit" has the meaning given by the A New Tax System (Goods and Services Tax) Act 1999 and a reference to an input tax credit entitlement of an entity includes an input tax credit for an acquisition made by that entity but to which another member of the same GST group is entitled.
- (c) Any part of a supply that is treated as a separate supply for GST purposes (including attributing GST payable to tax periods) will be treated as a separate supply for the purposes of this clause 15.
- (d) Any consideration for a supply that is specified to be inclusive of GST must not be taken into account in calculating the GST payable in relation to that supply for the purpose of this clause 15.

15.2 Reimbursements and similar payments

Any payment or reimbursement required to be made under this agreement that is calculated by reference to a cost, expense, or other amount paid or incurred will be limited to the total cost, expense or amount less the amount of any input tax credit to which an entity is entitled for the acquisition to which the cost, expense or amount relates.

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15.3 GST payable

- (a) If GST is payable in relation to a taxable supply made under or in connection with this agreement then any party (**Recipient**) that is required to provide consideration to another party (**Supplier**) for that supply must, subject to clause 15.1(d), pay an additional amount to the Supplier equal to the amount of that GST at the same times as other consideration is to be provided for that supply.
- (b) No payment of any amount pursuant to clause 15.3(a) is required until the Supplier has provided a valid tax invoice to the Recipient.
- (c) Where additional amounts are payable between parties to this agreement pursuant to clause 15.3(a), amounts so payable, to the extent they are equivalent in amount, shall be set off against each other as if paid and each party shall be obliged only to provide the tax invoice referred to in clause 15.3(b) no later than the time at which any consideration is to be first provided for that supply.
- (d) If the GST payable in relation to a supply made under or in connection with this agreement varies from the additional amount paid by the Recipient under clause 15.3(a) then the Supplier must promptly issue an adjustment note to the Recipient and will provide a corresponding refund or credit to, or will be entitled to receive the amount of that variation from, the Recipient. Any payment, credit or refund under this clause 15.1(d) is deemed to be a payment, credit or refund of the additional amount payable under clause 15.3(a).

16. Entire agreement

The Transaction Documents and the Confidentiality Deed constitute the entire agreement between the parties in relation to their subject matter and supersede all previous agreements and understandings between the parties in relation to their subject matter.

17. General**17.1 No representation or reliance**

- (a) Each party acknowledges that no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this agreement, except for representations or inducements expressly set out in this agreement and (to the maximum extent permitted by law) all other representations, warranties and conditions implied by statute or otherwise in relation to any matter relating to this agreement, the circumstances surrounding the parties' entry into it and the transactions contemplated by it are expressly excluded.
- (b) Each party acknowledges and confirms that it does not enter into this agreement in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this agreement.
- (c) Clauses 17.1(a) and 17.1(b) above do not prejudice any rights a party may have in relation to information which had been filed by the other party with ASIC or ASX.

17.2 Amendments

This agreement may only be varied by a document signed by or on behalf of each party.

17.3 Assignment

Subject to clause 2.3, a party may not assign, novate or otherwise transfer any of its rights or obligations under this agreement without the prior written consent of the other party.

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17.4 Consents

Unless this agreement expressly provides otherwise, a consent under this agreement may be given or withheld in the absolute discretion of the party entitled to give the consent and to be effective must be given in writing.

17.5 Costs

Except as otherwise provided in this agreement, each party must pay its own costs and expenses in connection with negotiating, preparing, executing and performing each Transaction Document.

17.6 Counterparts

This agreement may be executed in any number of counterparts and by the parties on separate counterparts. Each counterpart constitutes an original of this agreement, and all together constitute one agreement.

17.7 Further acts and documents

Each party must promptly do all further acts and execute and deliver all further documents (in form and content reasonably satisfactory to that party) required by law or reasonably requested by another party to give effect to this agreement.

17.8 Remedies

The parties acknowledge that damages may not be a sufficient remedy for breach of this agreement. Specific performance, injunctive relief, or any other remedies which would otherwise be available in equity or in law are available as a remedy for a breach or threatened breach of this agreement by any party, notwithstanding the ability of any party to terminate this agreement or seek damages for such a breach or threatened breach.

17.9 No merger

A party's rights and obligations do not merge on completion of any transaction under this agreement.

17.10 Severance

If any provision or part of a provision of this agreement is held or found to be void, invalid or otherwise unenforceable (whether in respect of a particular party or generally), it will be deemed to be severed to the extent that it is void or to the extent of violability, invalidity or unenforceability, but the remainder of that provision will remain in full force and effect.

17.11 Stamp duties

IOOF:

- (a) must pay all stamp duties and any related fines and penalties in respect of this agreement, the performance of this agreement and each transaction effected by or made under this agreement;
- (b) must pay to SFG on demand the amount of any loss suffered or incurred by SFG arising out of or in connection with any failure to comply with clause 17.11(a); and
- (c) is authorised to apply for and retain the proceeds of any refund due in respect of stamp duty paid under this clause 17.11.

17.12 Waivers

Without limiting any other provision of this agreement, the parties agree that:

- (a) failure to exercise or enforce, or a delay in exercising or enforcing, or the partial exercise or enforcement of, a right, power or remedy provided by law or under this agreement by a party does not preclude, or operate as a waiver of, the exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this agreement;
- (b) a waiver given by a party under this agreement is only effective and binding on that party if it is given or confirmed in writing by that party; and
- (c) no waiver of a breach of a term of this agreement operates as a waiver of another breach of that term or of a breach of any other term of this agreement.

17.13 Discretion in exercising rights

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this agreement expressly states otherwise.

17.14 Partial exercising of rights

If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

17.15 No liability for loss

A party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this agreement.

17.16 Approvals and consents

By giving its approval or consent a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

17.17 Conflict of interest

The parties' rights and remedies under this agreement may be exercised even if it involves a conflict of duty or a party has a personal interest in their exercise.

17.18 Indemnities

The indemnities in this agreement are continuing obligations, independent from the other obligations of the parties under this agreement and continue after this agreement ends. It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this agreement.

17.19 Enforceability

For the purpose of this agreement:

- (a) SFG is taken to be acting as agent and trustee on behalf of and for the benefit of all SFG Indemnified Parties; and
- (b) IOOF is taken to be acting as agent and trustee on behalf of and for the benefit of all IOOF Indemnified Parties,

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and all of those persons are to this extent taken to be parties to this agreement.

17.20 Construction

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this agreement or any part of it.

18. Governing law, jurisdiction and service of process**18.1 Governing law**

This agreement is governed by the law applying in New South Wales.

18.2 Jurisdiction

Each party irrevocably:

- (a) submits to the non exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings that may be brought at any time relating to this agreement; and
- (b) waives any objection it may now or in the future have to the venue of any proceedings, and any claim it may now or in the future have that any proceedings have been brought in an inconvenient forum, if that venue falls within clause 18.2(a).

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Schedule 1 Timetable

Event	Date
First Court Date	Friday 27 June 2014
Scheme Meeting	Friday 1 August 2014
Second Court Date	Wednesday 6 August 2014
Effective Date	Wednesday 6 August 2014
Implementation Date	Wednesday 20 August 2014

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Executed as an agreement.

Executed by **SFG Australia Limited ACN 006 490 259** in accordance with section 127 of the Corporations Act 2001 (Cth):

Signature of director_____
Full name of director

Executed by **IOOF Holdings Limited ACN 100 103 722** in accordance with section 127 of the Corporations Act 2001 (Cth):



Signature of director

CHRIS KBRAUER

Full name of director

Signature of company secretary/director_____
Full name of company secretary/director

Signature of company secretary/director
Danielle Corcoran

Full name of company secretary/director



Annexure A Scheme

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Annexure B Deed Poll

.....

Scheme



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Scheme of Arrangement

Pursuant to section 411 of the Corporations Act

SFG Australia Limited
SFG

The registered holders of fully paid ordinary shares in the capital of SFG as
at the Record Date

Clayton Utz
Lawyers
Level 15 1 Bligh Street
Sydney NSW 2000
GPO Box 9806
Sydney NSW 2001
Tel +61 2 9353 4000
Fax +61 2 8220 6700
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Our reference 13530/14604/80147410

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Scheme of Arrangement made under section 411 of the Corporations Act 2001 (Cth)

Date

Parties

SFG Australia Limited ACN 006 490 259 of Level 18, 50 Bridge Street, Sydney NSW 2000 (**SFG**)

The registered holders of fully paid ordinary shares in the capital of SFG as at the Record Date

Background

- A. SFG is a public company incorporated in the state of New South Wales and is admitted to the official list of ASX.
- B. IOOF Holdings Limited ACN 100 103 722 (**IOOF**) is a public company incorporated in the state of Victoria and is admitted to the official list of ASX.
- C. SFG and IOOF have entered into the Implementation Agreement pursuant to which, amongst other things, SFG has agreed to propose this Scheme to SFG Shareholders, and each of SFG and IOOF have agreed to take certain steps to give effect to the Scheme.
- D. If the Scheme becomes Effective, then:
 - (a) all the Scheme Shares will be transferred to IOOF and the Scheme Consideration will be provided to the Scheme Shareholders in accordance with the provisions of the Scheme; and
 - (b) SFG will enter the name and address of IOOF in the SFG Share Register as the holder of the Scheme Shares.
- E. IOOF has entered into the Deed Poll for the purpose of covenanting in favour of Scheme Shareholders to perform the obligations contemplated of it under the Scheme.

1. Definitions and interpretation

1.1 Definitions

In this document, unless the contrary intention appears or the context requires otherwise:

Adjusted Number means the number determined in accordance with the following formula:

$$\text{Adjusted Number} = 0.104 \times \left(1 + \frac{D}{\text{IOOF VWAP}} \right)$$

Where:

D is the cash amount per IOOF Share (expressed in dollars and excluding, for the avoidance of doubt, any franking credit) of any dividend declared or paid by IOOF the record date for which occurs after the date of the Implementation Agreement and before the Implementation Date.

ASIC means the Australian Securities and Investments Commission.

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ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it known as the Australian Securities Exchange.

Business Day means a day that is not a Saturday, Sunday or public holiday and on which banks are open for business generally in Melbourne and Sydney.

CHESS means the clearing house electronic sub-register system for the electronic transfer of securities operated by ASX Settlement and Transfer Corporation Pty Limited ABN 49 008 504 532.

Condition means each condition to this Scheme set out in clause 2.1.

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court, New South Wales registry or such other court of competent jurisdiction as SFG and IOOF agree in writing.

Deed Poll means the deed poll dated [*] May 2014 executed by IOOF in favour of the Scheme Shareholders (subject to any amendments permitted by its terms).

Effective means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

Eligible Scheme Shareholder means a Scheme Shareholder other than an Ineligible Overseas Shareholder.

Encumbrance means a mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other security agreement or arrangement in favour of any person, whether registered or unregistered, including any Security Interest.

End Date means the latest to occur of:

- (a) 31 December 2014; and
- (b) such other date agreed in writing between SFG and IOOF.

Explanatory Memorandum means the explanatory memorandum to be prepared by SFG pursuant to section 412 of the Corporations Act in respect of the Scheme in accordance with the terms of the Implementation Agreement and to be dispatched to the SFG Shareholders.

Implementation Agreement means the scheme implementation agreement dated [*] May 2014 between SFG and IOOF under which, amongst other things, SFG has agreed to propose the Scheme to Scheme Shareholders, and each of IOOF and SFG has agreed to take certain steps to give effect to the Scheme.

Implementation Date means the date which is 3 Business Days after the Record Date or such other date as SFG and IOOF agree in writing.

Ineligible Overseas Shareholder means a Scheme Shareholder whose address shown in the SFG Share Register on the Record Date is a place outside Australia and its external territories, unless IOOF determines that it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with New IOOF Shares when the Scheme becomes Effective.

IOOF FY14 Dividend means a dividend, fully franked or otherwise, for each IOOF Share to be declared by IOOF in respect of the financial year ended 30 June 2014.

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IOOF Share means fully paid ordinary shares in the capital of IOOF.

IOOF Share Register means the register of members of IOOF maintained by or on behalf of IOOF in accordance with section 168(1) of the Corporations Act.

IOOF VWAP means:

- (a) subject to paragraph (b) below, the average (calculated to 2 decimal places) of the volume weighted average share prices for IOOF Shares traded on ASX (excluding any and all special crossings, crossings made prior to the commencement of normal trading, crossings made during the closing phase or the after hours adjust phase, equity combinations, overseas trades and overnight crossings or trades pursuant to the exercise of options over IOOF Shares, and any other trades which SFG and IOOF reasonably agree to exclude on the basis that they are not representative of the general price at which IOOF Shares are trading on ASX in the context of trading in IOOF Shares on any day on which the trades took place) on each of the Trading Days comprising the IOOF VWAP Period; and
- (b) if after the date of the Implementation Agreement but before the Implementation Date a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, then, for the purpose of calculating the IOOF VWAP, in calculating the volume weighted average share price for IOOF Shares on any Trading Day during the IOOF VWAP Period on which IOOF Shares did not trade ex the entitlement to receive that dividend, the volume weighted average share price for IOOF Shares on that Trading Day will be reduced by the cash amount of that dividend (and, for this purpose, if the ex date for that dividend is after the end of the IOOF VWAP Period, the IOOF Shares will be taken to not have traded ex-dividend during the IOOF VWAP Period).

IOOF VWAP Period means the ten Trading Days immediately preceding the date of the Scheme Meeting (but not including that date).

Maximum Cash Consideration means:

- (a) if after the date of the Implementation Agreement but before the Implementation Date no dividend is paid on IOOF Shares and no record date for any IOOF dividend occurs, the amount calculated as the IOOF VWAP multiplied by 0.104 for each SFG Share held by a Scheme Shareholder electing to receive Maximum Cash Consideration in accordance with the terms of the Scheme; or
- (b) if after the date of the Implementation Agreement but before the Implementation Date a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, the amount calculated as the IOOF VWAP multiplied by the Adjusted Number for each SFG Share held by a Scheme Shareholder electing to receive Maximum Cash Consideration in accordance with the terms of the Scheme.

Listing Rules means the official listing rules of ASX.

New IOOF Share means a fully paid ordinary share in IOOF to be provided to Scheme Shareholders under the Scheme.

Record Date means 5.00 pm (Sydney time) on the date which is 7 Business Days after the Effective Date or such other time and date agreed in writing between IOOF and SFG.

Scheme means the scheme of arrangement under part 5.1 of the Corporations Act between SFG and SFG Shareholders as set out in this document, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and agreed to by IOOF and SFG.

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Scheme Consideration means the consideration to be provided to Scheme Shareholders under the terms of this Scheme, for the transfer to IOOF of their Scheme Shares, ascertained in accordance with clause 5.

Scheme Meeting means the meeting of SFG Shareholders ordered by the Court in relation to the Scheme to be convened under section 411(1) of the Corporations Act.

Scheme Shares means a SFG Share on issue as at the Record Date.

Scheme Shareholder means a person who holds SFG Shares as at the Record Date.

Second Court Date means the first day of hearing of an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme or, if the hearing of such application is adjourned for any reason, means the first day of the adjourned hearing.

SFG Board means the board of directors of SFG.

SFG FY14 Dividend means a dividend, fully franked or otherwise, for each SFG Share to be declared by SFG in respect of the financial year ended 30 June 2014.

SFG Share Register means the register of members of SFG maintained by or on behalf of SFG in accordance with section 168(1) of the Corporations Act.

SFG Share Registry means Computershare Investor Services Pty Limited (ACN 078 279 277).

SFG Shareholder means a person who is registered in the SFG Share Register as a holder of SFG Shares.

SFG Shares means fully paid ordinary shares in the capital of SFG.

SFG Special Dividend means a fully franked dividend being a cash amount per SFG Share equal to the amount given by the following formula:

$$(IOOF\ FY14\ Dividend \times 0.104) - SFG\ FY14\ Dividend$$

provided that the references to the IOOF FY14 Dividend and SFG FY14 Dividend in the formula above will include the value of any franking credits attaching to the respective dividends on the basis that the credits will be valued at 100% of their face value.

Share Consideration means the New IOOF Shares which a Scheme Shareholder is entitled to receive as part of the Scheme Consideration under clause 5.

Share Offer Consideration means:

- (a) if after the date of the Implementation Agreement but before the Implementation Date, no dividend is paid on IOOF Shares and no record date for any IOOF dividend occurs 0.104 New IOOF Shares for each SFG Share held by a Scheme Shareholder receiving Share Consideration in accordance with the terms of the Scheme; or
- (b) if after the date of the Implementation Agreement but before the Implementation Date, a dividend is paid on IOOF Shares or the record date for any IOOF dividend occurs, the Adjusted Number of New IOOF Shares for each SFG Share held by a Scheme Shareholder receiving Share Consideration in accordance with the terms of the Scheme.

Trading Day has the meaning given in the Listing Rules.

1.2 Interpretation

In this document, unless the contrary intention appears or the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) each gender includes each other gender;
- (c) references to persons includes references to individuals, corporations, other bodies corporate or bodies politic;
- (d) references to paragraphs or clauses are to a paragraph or clause of this document;
- (e) a reference to a statute, regulation or agreement is to such a statute, regulation or agreement as from time to time amended;
- (f) a reference to a person includes a reference to a person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (g) if a time period is specified and dates from a given date or the day of an act or event, it is to be calculated exclusive of that day;
- (h) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (i) a reference to any time is a reference to that time in Melbourne, Australia;
- (j) a reference to "\$" or "A\$" is to the lawful currency of the Commonwealth of Australia;
- (k) a reference to a document is that document as varied, novated, ratified or replaced from time to time;
- (l) the interpretation of a substantive provision is not affected by any heading; and
- (m) "includes" in any form is not a word of limitation.

1.3 Business Day

Except where otherwise expressly provided, where under this document the day on which any act, matter or thing is to be done is a day other than a Business Day, such act, matter or thing shall be done on the immediately preceding Business Day.

2. Conditions Precedent

2.1 Conditions to the Scheme

The Scheme is conditional upon, and will have no force or effect until, the satisfaction of each of the following conditions, and the provisions of clauses 3, 4 and 5 will not come into effect unless and until each of these conditions have been satisfied:

- (a) as at 8.00 am on the Second Court Date each of the conditions set out in clause 3.1 of the Implementation Agreement (other than the condition relating to the approval of the Court set out in clause 3.1(j) of the Implementation Agreement) have been satisfied or waived in accordance with the terms of the Implementation Agreement;
- (b) as at 8.00 am on the Second Court Date the Implementation Agreement has not been terminated;

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- (c) the Court approves this Scheme under section 411(4)(b) of the Corporations Act with or without modification;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to IOOF and SFG have been satisfied; and
- (e) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to the Scheme.

2.2 Certificates in relation to Conditions Precedent

On the Second Court Date:

- (a) SFG must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clauses 3.1 (other than clause 3.1(j)) of the Implementation Agreement have been satisfied or waived in accordance with the Implementation Agreement; and
- (b) IOOF must provide to the Court a certificate (or such other evidence as the Court may request) confirming (in respect of matters within its knowledge) whether or not as at 8.00 am on the Second Court Date the conditions set out in clauses 3.1 (other than clause 3.1(j)) of the Implementation Agreement have been satisfied or waived in accordance with the Implementation Agreement.

2.3 Termination of Implementation Agreement

Without limiting any rights under the Implementation Agreement, in the event that the Implementation Agreement is terminated in accordance with its terms before 8.00 am on the Second Court Date, SFG, IOOF and IOOF are each released from:

- (a) any further obligation to take steps to implement the Scheme; and
- (b) any liability with respect to the Scheme.

3. Scheme

3.1 Effective Date of the Scheme

Subject to clause 3.2, the Scheme will take effect on and from the Effective Date.

3.2 End Date

The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date, or such later date as SFG and IOOF agree in writing.

4. Implementation of Scheme

4.1 Lodgement

If the Conditions are satisfied, SFG must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving the Scheme as soon as possible after, and in any event by no later than 5.00 pm on the Business Day following, the date on which the Court approves the Scheme or such other Business Day as SFG and IOOF agree in writing.

4.2 Transfer of Scheme Shares

On the Implementation Date, subject to the provision of the Scheme Consideration in the manner contemplated by clauses 4.3, 4.4 and 5 and IOOF having provided SFG with written confirmation thereof, all of the Scheme Shares will, together with all rights and entitlements attaching to the Scheme Shares, be transferred to IOOF without the need for any further act by any Scheme Shareholder (other than acts performed by SFG or its directors as attorney or agent for Scheme Shareholders under this Scheme), by SFG effecting a valid transfer or transfers of the Scheme Shares to IOOF under section 1074D of the Corporations Act or, if that procedure is not available for any reason, by:

- (a) SFG delivering to IOOF a completed share transfer form or forms (which may be a master transfer form) to transfer all of the Scheme Shares to IOOF duly executed by SFG as the attorney and agent of each Scheme Shareholder under clause 8.1 of this Scheme;
- (b) IOOF executing and delivering the share transfer form or forms to SFG; and
- (c) SFG immediately after receipt of the share transfer form or forms under clause 4.2(b), entering, or procuring the entry of, the name and address of IOOF in the SFG Share Register as the holder of all of the Scheme Shares.

4.3 Provision of Scheme Consideration

- (a) On the Implementation Date, in consideration for the transfer to IOOF of each Scheme Share:
 - (i) IOOF will issue to each Eligible Scheme Shareholder such number of New IOOF Shares as that Eligible Scheme Shareholder is entitled to as Share Consideration under clause 5;
 - (ii) IOOF will issue to a nominee appointed by IOOF in accordance with clause 5.6 such number of IOOF Shares as are attributable to the Ineligible Overseas Shareholders;
 - (iii) IOOF will procure the entry in the IOOF Share Register:
 - A. of the name and address of each Eligible Scheme Shareholder in respect of the IOOF Shares issued to them; and
 - B. of the name and address of the nominee appointed by IOOF in respect of those IOOF Shares that would otherwise be issued to each Scheme Shareholder who is an Ineligible Overseas Shareholder; and
 - (iv) IOOF will pay to each Scheme Shareholder such amount of Maximum Cash Consideration (if applicable) as that Scheme Shareholder is entitled to under clause 5 for each Scheme Share registered in the name of that Scheme Shareholder in Australian currency by:
 - A. sending or procuring the despatch to each such Scheme Shareholder by prepaid ordinary post (or, if the address of the Scheme Shareholder in the SFG Share Register is outside Australia, by pre-paid airmail post) to his or her address recorded in the SFG Share Register as at the Record Date, a pre-printed cheque for the amount of Maximum Cash Consideration due to that Scheme Shareholder (if applicable), as determined in accordance with the Scheme; or

- B. depositing that the amount of Maximum Cash Consideration due to that Scheme Shareholder (if applicable), as determined in accordance with the Scheme into an account with an Australian ADI (as defined in the Corporations Act) notified to IOOF by an appropriate authority from the Scheme Shareholder.
- (b) Within 5 Business Days after the Implementation Date, IOOF will send or procure the despatch to each Scheme Shareholder whose IOOF Shares are held on the issuer sponsored subregister of IOOF or the nominee appointed by IOOF (as the case may be) by prepaid post to their address (as recorded in the SFG Share Register as at the Record Date, except in the case of the nominee appointed by IOOF) of uncertificated holding statements for IOOF Shares issued to the Scheme Shareholder or the nominee appointed by IOOF (as the case may be) in accordance with this Scheme.

4.4 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any cheque required to be paid to Scheme Shareholders will be payable to the joint holders; and
- (b) any holding statements for IOOF Shares to be issued to Scheme Shareholders will be issued in the names of the joint holders,

and will be forwarded to the holder whose name appears first in the SFG Share Register as at 5:00pm on the Record Date.

5. Scheme Consideration

5.1 Election

- (a) SFG must ensure that the Explanatory Memorandum sent to SFG Shareholders is accompanied by a form of election which provides for the matters set out in clause 5.1(b) under which each Scheme Shareholder is requested to elect one of the following:
 - (i) the Share Offer Consideration in respect of all of their SFG Shares; or
 - (ii) the Maximum Cash Consideration in respect of all of their SFG Shares.
- (b) The form of election shall provide that:
 - (i) subject to clause 5.1(b)(vi), a Scheme Shareholder may make only one election in relation to a particular holding;
 - (ii) subject to clause 5.1(b)(vi), any valid election by a Scheme Shareholder will apply to all of the SFG Shares of the Scheme Shareholder as at the Record Date;
 - (iii) a valid election may be made by a Scheme Shareholder by returning the election form before the Record Date in writing to an address to be specified by SFG in the Explanatory Memorandum;
 - (iv) once made, a valid election by a Scheme Shareholder may be varied before the Record Date;
 - (v) if a valid election is not made by a Scheme Shareholder prior to the Record Date, then that Scheme Shareholder will be deemed to have

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made an election to receive Share Offer Consideration in respect of all Scheme Shares held by that shareholder; and

- (vi) in the manner considered appropriate by SFG (acting reasonably), a Scheme Shareholder that holds one or more parcels of SFG Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels of SFG Shares.
- (c) SFG must ensure that, to the extent reasonably practicable, Scheme Shareholders that have acquired SFG Shares after the date of the despatch of the Explanatory Memorandum can receive an election form on request to SFG.
- (d) In order to facilitate the issue of the IOOF Shares, SFG must provide, or procure the provision, to IOOF, or a nominee of IOOF, of details of the final elections made by each Scheme Shareholder, within 2 Business Days after the Record Date.

5.2 Election for Share Offer Consideration

If a Scheme Shareholder makes a valid election, or is deemed to have made an election, to receive Share Offer Consideration, then subject to clauses 5.5 and 5.6, the Scheme Shareholder will be entitled to receive for each Scheme Share held by that Scheme Shareholder at the Record Date, the Share Offer Consideration.

5.3 Election for Maximum Cash Consideration

If a Scheme Shareholder makes a valid election, to receive Maximum Cash Consideration, then subject to the Scheme becoming Effective and subject to clauses 5.4, 5.5 and 5.6 the Scheme Shareholder will be entitled to receive, for each SFG Share held by that Scheme Shareholder as at the Record Date, the Maximum Cash Consideration, unless clause 5.4 applies in which case the amount of Maximum Cash Consideration paid to the relevant Scheme Shareholder will be determined in accordance with that clause.

5.4 Scale back

- (a) This clause 5.4 applies if the elections made by Scheme Shareholders are such that the aggregate amount of Maximum Cash Consideration that would be required to be paid by IOOF to satisfy the entitlements determined under clause 5.3 exceeds \$100,000,000.
- (b) Where this clause 5.4 applies the aggregate Maximum Cash Consideration to which each Scheme Shareholder is entitled will be scaled back in accordance with the following formula:

$$tCC = \frac{CCcap}{CCtotal} \times pCC$$

Where:

- tCC* is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder is entitled to receive as part of the Maximum Cash Consideration for all SFG Shares held by the Scheme Shareholder as at the Record Date;
- pCC* is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder would have received as part of the Scheme Consideration for all SFG Shares held by that Scheme Shareholder as at the Record Date determined under clause 5.3 (but for this clause 5.4);
- CCcap* \$100,000,000; and

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CC total is the aggregate amount of Maximum Cash Consideration that would be required to be paid by IOOF in payment of the Maximum Cash Consideration to satisfy the entitlements determined under clause 5.3 for all Scheme Shareholders (but for this clause 5.4).

- (c) To the extent that the application of clause 5.4(b) results in an aggregate entitlement of a Scheme Shareholder to Maximum Cash Consideration that is less than would have applied but for this clause 5.4, the Scheme Shareholder will be entitled to Share Consideration in accordance with the following formula:

$$tSC = \frac{pCC - tCC}{VWAP}$$

Where:

tSC is the aggregate amount of New IOOF Shares the relevant Scheme Shareholder is entitled to receive as Share Consideration for all SFG Shares held by that Scheme Shareholder as at the Record Date;

pCC has the meaning given to that term in clause 5.4(b);

tCC is the aggregate amount of Maximum Cash Consideration the relevant Scheme Shareholder is entitled to receive for all SFG Shares held by the Scheme Shareholder as at the Record Date as determined in accordance with clause 5.4(b); and

VWAP is the IOOF VWAP.

5.5 Fractional entitlements and share splitting or division

- (a) If the number of Scheme Shares held by a Scheme Shareholder at the Record Date is such that the aggregate entitlement of the Scheme Shareholder to Scheme Consideration:

- (i) comprising IOOF Shares is such that a fractional entitlement to a IOOF Share arises; or
- (ii) comprising cash is such that a fractional entitlement to a cent arises,

then the entitlement of that Scheme Shareholder must be rounded up or down, with any such fractional entitlement of less than 0.5 being rounded down to the nearest whole number of IOOF Shares (or cents, as applicable), and any such fractional entitlement of 0.5 or more will be rounded up to the nearest whole number of IOOF Shares (or cents, as applicable).

- (b) If IOOF is of the opinion (acting reasonably) that two or more Scheme Shareholders (each of whom holds a number of Scheme Shares which results in rounding in accordance with clause 5.5(a)) have, before the Record Date, been party to shareholding splitting or division in an attempt to obtain unfair advantage by reference to such rounding, IOOF may give notice to those Scheme Shareholders:

- (i) setting out their names and registered addresses as shown in the SFG Share Register;
- (ii) stating that opinion; and
- (iii) attributing to one of them specifically identified in the notice the Scheme Shares held by all of them,

and, after such notice has been given, the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares

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will, for the purposes of the other provisions of the Scheme, be taken to hold all of those Scheme Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice will, for the purposes of the other provisions of the Scheme, be taken to hold no Scheme Shares. IOOF in complying with the other provisions of the Scheme relating to it in respect of the Scheme Shareholder specifically identified in the notice as the deemed holder of all the specified Scheme Shares, will be taken to have satisfied and discharged its obligations to the other Scheme Shareholders named in the notice under the terms of the Scheme.

5.6 Binding instruction or notifications

Except for a Scheme Shareholder's tax file number, any binding instruction or notification between a Scheme Shareholder and SFG relating to Scheme Shares as at the Record Date (including, without limitation, any instructions relating to payment of dividends or to communications from SFG) will, from the Record Date, be deemed (except to the extent determined otherwise by IOOF in its sole discretion) to be a similarly binding instruction or notification to, and accepted by IOOF, in respect of the IOOF Shares issued to the Scheme Shareholder until that instruction or notification is revoked or amended in writing addressed to IOOF at the IOOF share registry, provided that any such instructions or notifications accepted by IOOF will apply to and in respect of the issue of IOOF Shares as part of the share component of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of the Scheme.

5.7 Ineligible Overseas Shareholders

- (a) IOOF will ensure that IOOF Shares to which an Ineligible Overseas Shareholder would otherwise have been entitled (if they were an Eligible Scheme Shareholder) will be issued to a nominee appointed by IOOF.
- (b) IOOF will procure that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:
 - (i) sells on the financial market conducted by ASX all of the IOOF Shares issued to the nominee pursuant to clause 5.7(a) in such manner, at such price and on such other terms as the nominee determines in good faith; and
 - (ii) remits to IOOF the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).
- (c) Promptly after the last sale of IOOF Shares in accordance with clause 5.7(b), IOOF will pay to each Ineligible Overseas Shareholder the proportion of the net proceeds of sale received by IOOF pursuant to clause 5.7(b)(ii) to which that Ineligible Overseas Shareholder is entitled.
- (d) Neither IOOF or SFG gives any assurance as to the price that will be achieved for the sale of New IOOF Shares described in clause 5.7(b)(ii). The sale of the New IOOF Shares under this clause 5.6 will be at the risk of the Ineligible Overseas Shareholder.
- (e) IOOF must appoint the nominee at least two weeks prior to the Scheme Meeting.

5.8 Status of New IOOF Shares

IOOF covenants in favour of SFG (in its own right and on behalf of each Scheme Shareholder) that:

- (a) the New IOOF Shares issued as Scheme Consideration will, on their issue, rank equally in all respects with all other IOOF Shares, and the New IOOF Shares issued

as Scheme Consideration will be entitled to participate in and receive the IOOF FY14 Dividend. If the Implementation Date occurs after the record date in respect of the IOOF FY14 Dividend, SFG may declare and pay the SFG FY14 Dividend and the SFG Special Dividend in accordance with clause 4.4 of the Implementation Agreement;

- (b) it will use best endeavours to ensure that the New IOOF Shares issued as Scheme Consideration will be listed for quotation on the official list of the ASX with effect from the Business Day after the Effective Date (or such later date as ASX may require), initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary (T+3) settlement basis; and
- (c) on issue, each New IOOF Share will be fully paid and, to the extent within the control of IOOF, free from any Encumbrance.

6. Dealings in SFG Shares

6.1 Dealings in SFG Shares by Scheme Shareholders

For the purposes of establishing who are Scheme Shareholders, dealings in SFG Shares will be recognised by SFG provided that:

- (a) in the case of dealings of the type to be effected on CHESS, the transferee is registered in the SFG Share Register as the holder of the relevant SFG Shares by the Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings are received at the place where the SFG Share Register is kept by 5:00 pm on the day which is the Record Date (in which case SFG must register such transfers before 7:00 pm on that day),

and SFG will not accept for registration, or recognise for the purpose of establishing who are Scheme Shareholders, any transmission application or transfer in respect of SFG Shares received after such times on the Record Date.

6.2 SFG Share Register

SFG will, until the Scheme Consideration has been paid and IOOF has been entered in the SFG Share Register as the holder of all of the Scheme Shares, maintain the SFG Share Register in accordance with the provisions of this clause 6 and the SFG Share Register in this form and the terms of this Scheme will solely determine entitlements to the Scheme Consideration.

6.3 Information to be made available to IOOF

SFG must procure that as soon as practicable following the Record Date, details of the names, registered addresses and holdings of SFG Shares of every Scheme Shareholder shown in the SFG Share Register at the Record Date are made available to IOOF in such form as IOOF may reasonably require.

6.4 Effect of share certificates and holding statements

As from the Record Date (and other than for IOOF following the Implementation Date), all share certificates and holding statements for the Scheme Shares will cease to have effect as documents of title, and each entry on the SFG Share Register at that date will cease to have any effect other than as evidence of entitlement to the Scheme Consideration.

6.5 No disposals after Record Date

If the Scheme becomes Effective, a Scheme Shareholder, and any person claiming through that Scheme Shareholder, must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date.

7. Suspension and termination of quotation

- (a) SFG must apply to ASX for suspension of trading of the SFG Shares on ASX with effect from the close of business on the Effective Date.
- (b) SFG must apply to ASX for termination of official quotation of the SFG Shares on ASX and the removal of SFG from the official list of ASX with effect from the Business Day immediately following the Implementation Date.

8. General Scheme provisions**8.1 Appointment of agent and attorney**

Each Scheme Shareholder, without the need for any further act, irrevocably appoints SFG as its agent and attorney for the purpose of:

- (a) executing any document or form or doing any other act necessary to give effect to the terms of the Scheme including, without limitation, the execution of the share transfer(s) to be delivered under clause 4.2(a) and the giving of the Scheme Shareholders' consent under clause 8.3; and
- (b) enforcing the Deed Poll against IOOF,

and SFG accepts such appointment. SFG, as agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.1 to all or any of its directors and officers (jointly, severally, or jointly and severally).

8.2 Enforcement of Deed Poll

SFG undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against IOOF (as applicable on behalf of and as agent and attorney for the Scheme Shareholders).

8.3 Scheme Shareholders' consent

Each Scheme Shareholder irrevocably:

- (a) consents to SFG and IOOF doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of the Scheme; and
- (b) acknowledges that the Scheme binds SFG and all of the SFG Shareholders from time to time (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme).

8.4 Scheme Shareholder's agreements

Under the Scheme:

- (a) each Scheme Shareholder to whom IOOF Shares are to be issued in accordance with the Scheme:

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- (i) agrees to become a member of IOOF and to have their name entered in the IOOF Share Register; and
 - (ii) accepts the IOOF Shares issued under the Scheme on the terms and conditions of the constitution of IOOF and agrees to be bound by the constitution of IOOF as in force from time to time in respect of the IOOF Shares,
- without the need for any further act by a Scheme Shareholder; and
- (b) each Scheme Shareholder agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, to IOOF in accordance with the terms of the Scheme.

8.5 Warranty by Scheme Shareholders

Each Scheme Shareholder is deemed to have warranted to IOOF that all their Scheme Shares (including any rights and entitlements attaching to those shares) will, at the date of the transfer of them to IOOF, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their Scheme Shares together with any rights and entitlements attaching to such shares.

8.6 Title to Scheme Shares

IOOF will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by SFG of IOOF in the SFG Share Register as the holder of the Scheme Shares.

8.7 Alterations and Conditions

SFG may, by its counsel or solicitors, and with the consent of IOOF, consent on behalf of all persons concerned, including a Scheme Shareholder, to any modification of or amendment to the Scheme which the Court thinks fit to impose.

8.8 Notices

Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to SFG, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at SFG's registered office or at the SFG Share Registry as the case may be.

8.9 Inconsistencies

This Scheme binds SFG and all SFG Shareholders, and to the extent of any inconsistency, overrides the SFG constitution.

8.10 Further assurance

SFG will execute all documents and do all acts and things as may be necessary or expedient for the implementation of, and performance of its obligations under, the Scheme.

8.11 Stamp Duty

IOOF will pay any stamp duty payable on the transfer by Scheme Shareholders of the Scheme Shares to IOOF.

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8.12 Governing Law

This Scheme is governed by the law applying in New South Wales. The parties submit to the non-exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to any proceedings in connection with the Scheme.

Deed Poll

E

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Deed Poll

(in respect of the Scheme)

IOOF Holdings Limited
IOOF

In favour of each registered holder of fully paid ordinary shares in the capital of SFG Australia Limited as at the Record Date

Clayton Utz
Lawyers
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Our reference 13530/14604/80147410

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Deed poll made on **25 June 2014**

Parties **IOOF Holdings Limited ACN 100 103 722** of Level 6, 161 Collins Street, Melbourne VIC 3000 (**IOOF**)

In favour of **Each registered holder of fully paid ordinary shares in the capital of SFG Australia Limited ACN 006 490 259 (SFG)** on issue as at the Record Date (**Scheme Shareholders**)

Background

- A. SFG and IOOF have entered into the Implementation Agreement.
- B. SFG has agreed in the Implementation Agreement to propose a scheme of arrangement between IOOF and the Scheme Shareholders, the effect of which will be that IOOF acquires all of the Scheme Shares from Scheme Shareholders for the Scheme Consideration, subject to the satisfaction of certain conditions.
- C. In accordance with clause 4.2(i) of the Implementation Agreement, IOOF is entering into this deed poll to covenant in favour of the Scheme Shareholders that it will observe and perform its obligations under the Scheme.

1. Definitions and interpretations

1.1 Definitions

In this deed poll:

- (a) **Scheme** means the proposed scheme of arrangement under Part 5.1 of the Corporations Act between SFG and the Scheme Shareholders, a copy of which is annexed to this deed poll, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and agreed to by IOOF and SFG.
- (b) **Implementation Agreement** means the scheme implementation agreement dated 16 May 2014 between SFG and IOOF under which, amongst other things, SFG has agreed to propose the Scheme to Scheme Shareholders, and each of IOOF and SFG has agreed to take certain steps to give effect to the Scheme.
- (c) capitalised terms have the meaning given to them in the Scheme, unless the context requires otherwise.

1.2 Interpretation

In this deed poll, unless the contrary intention appears or the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) each gender includes each other gender;
- (c) references to persons includes references to individuals, corporations, other bodies corporate or bodies politic;
- (d) references to paragraphs or clauses are to a paragraph or clause of this deed poll;
- (e) a reference to a statute, regulation or agreement is to such a statute, regulation or agreement as from time to time amended;

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- (f) a reference to a person includes a reference to a person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (g) if a time period is specified and dates from a given date or the day of an act or event, it is to be calculated exclusive of that day;
- (h) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (i) a reference to any time is a reference to that time in Melbourne, Australia;
- (j) a reference to "\$" or "A\$" is to the lawful currency of the Commonwealth of Australia;
- (k) a reference to a document is to that document as varied, novated, ratified or replaced from time to time;
- (l) the interpretation of a substantive provision is not affected by any heading; and
- (m) "includes" in any form is not a word of limitation.

1.3 Nature of deed poll

IOOF acknowledges that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and
- (b) under the Scheme, each Scheme Shareholder appoints SFG as its agent and attorney to enforce this deed poll against IOOF.

2. Conditions

2.1 Conditions Precedent

IOOF's obligations under this deed poll are subject to the Scheme becoming Effective.

2.2 Termination

If the Implementation Deed is terminated or the Scheme does not become Effective on or before the End Date, the obligations of IOOF under this deed poll automatically terminate and the terms of this deed poll will be of no further force or effect, unless SFG and IOOF otherwise agree in accordance with the Implementation Agreement.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, then in addition and without prejudice to any other rights, powers or remedies available to it, IOOF is released from its obligations to further perform this deed poll except those obligations under clause 6.1 and any other obligations which by their nature survive termination.

3. Compliance with Scheme obligations

3.1 Scheme Consideration

Subject to clause 2, in consideration for the transfer to IOOF of each Scheme Share, on the Implementation Date:

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- (a) IOOF will pay to each Scheme Shareholder such amount of Maximum Cash Consideration (if applicable) as that Scheme Shareholder is entitled to for each Scheme Share held by them in accordance with the terms of the Scheme; and
- (b) IOOF will issue to each Eligible Scheme Shareholder such number of IOOF Shares as that Eligible Scheme Shareholder is entitled to as Share Consideration for each Scheme Share held by them in accordance with the terms of the Scheme.

3.2 Manner and timing of satisfaction

Pursuant to and subject to the Scheme and subject to clause 2 of this deed poll:

- (a) the obligations of IOOF to provide Share Consideration to each applicable Eligible Scheme Shareholder will be satisfied by SFG complying with its obligations under clauses 4 and 5 of the Scheme; and
- (b) the obligations of IOOF to provide the Maximum Cash Consideration to each applicable Scheme Shareholder will be satisfied by IOOF complying with its obligations under clauses 4 and 5 of the Scheme.

3.3 Provision of Scheme Consideration to Ineligible Overseas Shareholders

In the case of each Scheme Shareholder that is an Ineligible Overseas Shareholder, IOOF must comply with clause 5.7 of the Scheme.

3.4 Official quotation of IOOF Shares

IOOF will seek confirmation from ASX that, as from the Business Day after the Effective Date, the New IOOF Shares will be listed for quotation on the official list of ASX, initially on a deferred settlement basis and, with effect from the Business Day following the Implementation Date, on an ordinary settlement basis.

3.5 Other obligations of IOOF

Subject to clause 2, IOOF:

- (a) must procure that all obligations of IOOF to pay the Scheme Consideration to each Scheme Shareholder in accordance with clauses 4 and 5 of the Scheme are met; and
- (b) covenants in favour of the Scheme Shareholders to perform all other obligations that are attributed to it under the Scheme, as if named as a party to the Scheme

4. Warranties

IOOF represents and warrants that:

- (a) it is a validly existing corporation registered under the laws of its place of incorporation;
- (b) the execution and delivery by it of this deed poll has been properly authorised by all necessary corporate action and it has full corporate power and lawful authority to perform or cause to be performed its obligations under this deed poll and to carry out or cause to be carried out the transactions contemplated by this deed poll; and
- (c) this deed poll will constitute legally, valid and binding obligations on it enforceable in accordance with its terms (subject to any necessary stamping) and does not conflict with or result in a breach of or default under:

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- (i) the constitution or equivalent constituent documents of it or any of its Related Bodies Corporate (as defined in the Implementation Agreement); or
- (ii) any writ, order or injunction, judgment, law, rule or regulation to which it is party, or by which it is bound.

5. Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) IOOF has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

6. General

6.1 Stamp duty

IOOF will:

- (a) pay or procure the payment of all stamp duties and any related fines and penalties in respect of this deed poll, the performance of this deed poll and each transaction effected by or made under this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 6.1(a).

6.2 Waiver

- (a) Waiver of any right arising from a breach of this deed poll or of any right, power, authority, discretion or remedy arising upon default under this deed poll must be in writing and signed by the party granting the waiver.
- (b) A failure or delay in exercise, or partial exercise, of:
 - (i) a right arising from a breach of this deed poll; or
 - (ii) a right, power, authority, discretion or remedy created or arising upon default under this deed poll,
 does not result in a waiver of that right, power, authority, discretion or remedy.
- (c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this deed poll or on a default under this deed poll as constituting a waiver of that right, power, authority, discretion or remedy.
- (d) A party may not rely on any conduct of another party as a defence to the exercise of a right, power, authority, discretion or remedy by that other party.
- (e) This clause 6.2 may not itself be waived except in writing.

6.3 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by SFG and IOOF; or

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- (b) on or after the Second Court Date, the variation is agreed to in writing by SFG and IOOF, and is approved by the Court,

in which event IOOF will enter into a further deed poll in favour of the Scheme Shareholders giving effect to such amendment or variation.

6.4 Cumulative rights

The rights, powers and remedies of IOOF and each Scheme Shareholder under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by the law independently of this deed poll.

6.5 Assignment

The rights and obligations of IOOF and the rights of each Scheme Shareholder under this deed poll are personal and must not be assigned, charged or otherwise dealt with at law or in equity.

6.6 Further action

IOOF will promptly do all things and execute and deliver all further documents required by law to give effect to this deed poll.

7. Governing law and jurisdiction

- (a) This deed poll is governed by the law applying in New South Wales.
- (b) IOOF irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of New South Wales, Commonwealth courts having jurisdiction in that state and the courts competent to determine appeals from those courts, with respect to for any proceedings in connection with this deed poll.

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Executed as a deed poll.

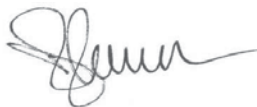
Executed by IOOF Holdings Limited ACN 100 103 722 by or in the presence of:



Signature of Director

Christopher F Kelaher

Name of Director in full

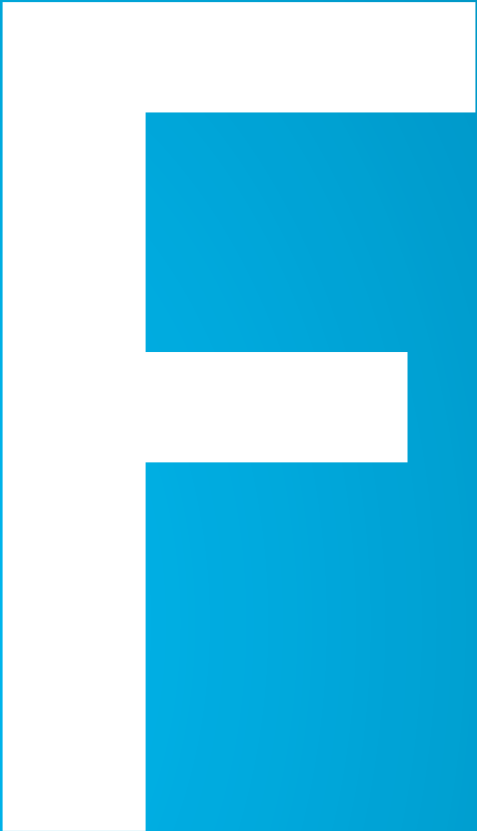


Signature of Secretary

Danielle Corcoran

Name of Secretary

Notice of Scheme Meeting



Notice of Court ordered meeting of holders of SFGA Shares

By an Order of the Federal Court of Australia made on 27 June 2014 pursuant to section 411(1) of the Corporations Act, notice is hereby given that a meeting of SFGA Shareholders will be held at the Radisson Blu Hotel Sydney, 27 O'Connell Street Sydney NSW 2000 at 11.00am on Friday, 1 August 2014.

The Court has also directed that Mr Peter Promnitz act as chairman of the meeting or, failing him, Mr Graham Maloney, and has directed the chairman to report the result of the meeting to the Court.

The purpose of the meeting is to consider and, if thought fit, agree to a scheme of arrangement (with or without any modifications on conditions approved by the Court to which SFGA agrees) proposed to be made between SFGA and SFGA Shareholders in relation to the proposed acquisition of 100% of the SFGA Shares by IOOF.

To enable you to make an informed voting decision, further information on the Scheme is set out in the Explanatory Memorandum which this notice accompanies. Terms used in this notice have the same meaning as set out in the Glossary in section 10 of the Explanatory Memorandum.

Business of the meeting

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

"That pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the members approve the arrangement proposed between SFG Australia Limited and the holders of its fully paid ordinary shares, designated the "Scheme", as contained in and more particularly described in the Explanatory Memorandum accompanying the notice convening this meeting (with or without any modifications or conditions approved by the Court to which SFG Australia Limited agrees) and, subject to approval of the Scheme by the Court, the SFGA Board is authorised to implement the Scheme with any such modifications or conditions."

Linda Fox

Company Secretary

Explanatory Notes

SFGA Shareholders who are entitled to vote

Only SFGA Shareholders who are registered on the SFGA Share Register at 7.00pm (Sydney time) on Wednesday, 30 July 2014 are entitled to vote on the resolution.

Majorities required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the resolution must be passed by, unless the Court orders otherwise:

- > a majority in number of SFGA Shareholders present and voting at the Scheme Meeting (in person, by proxy or by corporate representative or attorney); and
- > at least 75% of the total number of votes cast on the Scheme Resolution (in person, by proxy or by corporate representative or attorney), at the Scheme Meeting.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the resolution put to this meeting is passed by the Requisite Majorities and the other Conditions Precedent are satisfied or waived (as applicable), SFGA intends to apply to the Court on Wednesday, 6 August 2014 for approval of the Scheme.

Voting

How to vote

SFGA Shareholders can vote in either of two ways:

- > by attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- > by appointing a proxy to attend and vote on their behalf.

Voting in person (or by attorney)

SFGA Shareholders are asked to arrive at the venue 30 minutes prior to the time designated for the Scheme Meeting, so that their shareholding can be checked against the SFGA Share Register and attendances noted.

Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Representatives of companies attending the Scheme Meeting must present written proof of their appointment including any authority under which that appointment is signed, prior to the commencement of the Scheme Meeting (unless previously lodged with the SFGA Share Registry).

Voting by proxy

- > An SFGA Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote on the poll and also to speak at the Scheme Meeting.
- > The appointment of a proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed, and if the appointment does not specify the proportion or number of the SFGA Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.
- > A proxy need not be an SFGA Shareholder.
- > If a proxy is not directed how to vote on an item of business, the proxy may vote or abstain from voting, as that person thinks fit.
- > If a proxy is instructed to abstain from voting on an item of business, that person is directed not to vote on the SFGA Shareholder's behalf on the poll, and the SFGA Shares the subject of the proxy appointment will not be counted in computing the requisite majorities.
- > SFGA Shareholders who return their Proxy Form(s) with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the meeting, the chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the Scheme Meeting, the company secretary of SFGA or any SFGA Director which do not contain a direction will be used to vote in favour of the Scheme Resolution.
- > A vote given in accordance with the terms of a proxy is valid despite the revocation of the proxy, unless notice in writing of the revocation has been received by the SFGA Share Registry by 11.00am on 30 July 2014. SFGA Shareholders can revoke the proxy after this time by attending the Scheme Meeting and voting in person.
- > Completed Proxy Forms should be sent to the SFGA Share Registry using one of the reply-paid envelopes provided with the Explanatory Memorandum.
- > To be valid, Proxy Forms must be received by 11.00am on 30 July 2014 by one of the following methods:
 - by mailing the Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited, GPO Box 1282, Melbourne, VIC, 3001, Australia (using the reply paid envelope provided)
 - by hand delivering the Proxy Form to the SFGA Share Registry at Computershare Investor Services Pty Limited, "Yarra Falls", 452 Johnston Street, Abbotsford, VIC, 3067;
 - by faxing the Proxy Form to the SFGA Share Registry on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
 - by lodging a proxy online via www.investorvote.com.au or, for Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.
- > The Proxy Form must be signed by the SFGA Shareholder or the SFGA Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointor's attorney, a certified copy of the power of attorney, or the power itself, together with evidence of non-revocation of that power, must be received by the SFGA Share Registry at either of the above addresses or by facsimile transmission by 11.00am on Wednesday, 30 July 2014. If facsimile transmission is used, the power of attorney must be certified.

Directory

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Level 18
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Clayton Utz

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Auditor

PricewaterhouseCoopers

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201 Sussex Street
Sydney NSW 1171
Australia

Independent Expert

Ernst & Young Transaction Advisory Services Limited

680 George Street
Sydney NSW 2000
Australia

SFGA Share Registry

Computershare Investor Services Pty Limited

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

Investor and Analyst Queries

1800 425 578 (within Australia) or
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