

14 September 2012

ASX & Media Release

Premium and WAM Capital agree terms of a proposed merger

Summary

- Premium and WAM have agreed to an NTA for NTA swap with a 100% cash-out option
- Premium will cancel the proposed off-market buy-back

The independent directors¹ of Premium Investors Limited (**Premium**) Mr Lindsay Mann and Mr Tom Collins announce that Premium has entered into a Scheme Implementation Agreement (**SIA**) with WAM Capital Limited (**WAM**).

Premium shareholders will be asked to vote to approve a scheme of arrangement (**Scheme**) at a meeting expected to be held in late November (**Scheme Meeting**).

Scheme Consideration

If the Scheme is implemented, Premium shareholders will be able to elect either:

- to receive cash consideration for up to 100% of their shares (**Cash Consideration**); or
- to exchange up to 100% of their shares for shares in WAM (**Scrip Consideration**). The number of new WAM shares to be issued to each shareholder who elects to receive Scrip Consideration (**New WAM Shares**) will be calculated by reference to the relative pre-tax net tangible asset (**NTA**) backing per share of Premium and WAM, determined in the same manner as per each company's monthly net asset backing per share announcement to ASX, less any deferred tax assets carried on the balance sheet and less any transaction costs associated with implementing the Scheme. Premium shareholders will be issued one WAM Option for each New WAM Share that they are issued (**WAM Option**); or
- a combination of the above.

¹ Given his role as a director of Treasury Group Limited, Mr Reubert Hayes is not considered by the Board to be independent.



Scrip Consideration

The exchange ratio to determine the number of New WAM Shares to be issued for each Premium share will be calculated on the Calculation Date, being the Second Court Date (currently expected to be in early December 2012) and communicated to Premium shareholders shortly thereafter. The formula to determine the exchange ratio is outlined in Appendix A.

Based on the most recently reported monthly net asset backing per share for each company as at 31 August 2012, and taking into account estimated transaction costs, each Premium shareholder would receive approximately one New WAM Share for every two Premium shares they hold.

Each shareholder who elects to receive the Scrip Consideration will also be issued one WAM Option for each New WAM Share that they are issued. These options will be traded on the Australian Securities Exchange (**ASX**) under the ASX Code WAMO. The WAM Options have a strike price of \$1.60 per option and will be exercisable at any time up to 31 July 2013. The closing market price for these options on 13 September 2012 was \$0.027 per option.

Cash Consideration

Shareholders will receive an amount equal to the Premium pre-tax NTA per share, less deferred tax assets carried on the balance sheet and transaction costs associated with implementing the Scheme, for each Premium share.

Importantly, all Premium shareholders have the opportunity to cash out 100% if they so elect.

Key Benefits to Premium shareholders

- Shareholders can choose to receive the Cash Consideration or the Scrip Consideration (or a combination) for 100% of their shares.
- Shareholders are able to exit their investment without the need to pay brokerage.

To the extent that shareholders elect to receive **Cash Consideration** for all or part of their Premium shares:

- The Scheme provides shareholders with the opportunity to receive a cash consideration for up to 100% of their shares at close to the pre-tax NTA.
- The implied cash consideration per share is expected to deliver a significant premium to Premium's historic share price.

To the extent that shareholders elect to receive **Scrip Consideration** for all or part of their Premium shares, the Scheme will create a single listed investment company with a larger capital and shareholder base:

- The newly merged entity will create an investment company with approximately \$300 million of net assets and more than 8,500 shareholders and is expected to provide shareholders with access to greater liquidity in the trading of their shares².
- The merged entity will have:
 - A stable and clearly articulated investment strategy focused on Australian listed securities and a proven investment manager with an outstanding performance record.
 - A share price trading at or near the company's pre-tax NTA per share.
 - A reduced management expense ratio as a result of the removal of duplicated expenses.
 - A history of paying fully franked dividends to shareholders.
- The value of the Scrip Consideration (including the WAM Option) is expected to deliver a significant premium to Premium's historic share price.

Shareholders electing for Scrip Consideration may benefit from scrip-for-scrip rollover relief, subject to their own individual circumstances.

If the Scheme is implemented the Premium chairman, Mr. Lindsay Mann, will be invited to take a seat on the WAM Board to ensure continuity for Premium shareholders.

Treasury Group Limited (**Treasury**), also a Premium investor, has indicated that in the absence of a superior proposal it intends to vote in favour of the Scheme. A subsidiary of Treasury is currently the investment manager of Premium and will, if the scheme is approved be paid \$700,000 to reflect the change in circumstances of their management arrangements with Premium and Treasury's continued role as manager through the transition.

The independent directors believe the Scheme is in the best interests of Premium shareholders and intend to vote their own Premium shares in favour of the proposal.

Premium will distribute a Scheme Booklet which will include details of the Scheme, including a report from an independent expert stating whether the Scheme is in the best interests of Premium shareholders.

The approval of the Federal Court of Australia (New South Wales Registry) will also be required to make the Scheme effective.

² Total asset base and number of shareholders assumes all Premium shareholders elect to receive Scrip Consideration for 100% of their shares.

Premium has retained Allier Capital and Corrs Chambers Westgarth to assist with the Scheme.

Indicative timetable

An indicative timetable for the Scheme is set out below.³

Scheme Implementation Agreement signed	14 September 2012
First Court Hearing	Late October 2012
Scheme Booklet Dispatch to Premium shareholders	Late October 2012
Scheme Meeting	Late November 2012
Second Court Hearing, Effective Date and Calculation Date	Early December 2012
Implementation Date	Mid December 2012

Scheme Implementation Agreement

The key terms of the Scheme Implementation Agreement are outlined in Appendix B.

Withdrawal of Off-Market Buy-Back Proposal

The independent directors of Premium have determined that the Scheme is a superior restructure proposal to the off-market equal-access buy-back for up to 75% of shares in Premium that was announced on 22 August 2012. Treasury Group Limited agrees with the view of the independent directors of Premium, is supportive of the proposal, and has indicated that it intends to vote in favour of the proposal.

The considered view of the independent directors of Premium is that it is in the best interests of Premium shareholders to cancel the proposed buy-back.



Lindsay Mann

Chairman

³ The Board reserves the right to change the timetable at any time, and will announce any changes on the ASX Announcements Platform.



FURTHER INFORMATION:

Lindsay Mann

Chairman of Premium Investors Limited

Tel: 1800 087 348

APPENDIX A – FORMULA FOR THE ISSUE OF NEW WAM SHARES TO PREMIUM SHAREHOLDERS

Exchange Ratio

The calculation for the number of New WAM Shares to be issued to Premium shareholders who elect to receive Scrip Consideration is based on the relative pre-tax net tangible asset backing per share of each company at the Calculation Date:

$$NewWAM = PRVShares * \left(\frac{PRVNTA}{WAMNTA} \right)$$

Where:

- a) **NewWAM** means the number of New WAM Shares to be issued to each Premium Shareholder.
- b) **PRVShares** means the number of Premium shares held by the eligible Premium shareholder as at the Scheme record date that are elected for Scrip Consideration.
- c) **PRVNTA** means the pre-tax net tangible asset backing of Premium per Premium share (less deferred tax assets carried on the balance sheet and transaction costs).
- d) **WAMNTA** means the pre-tax net tangible asset backing of WAM per WAM share.
- e) **Calculation Date** means the date on which Premium and WAM calculate their PRVNTA and WAMNTA respectively, which will be the Second Court Date of the Scheme.

In addition, for each New WAM Share issued, WAM will also issue one option to the Premium shareholder.

APPENDIX B – KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT

Transaction structure

- 1 Premium shareholders participating in the Scheme will transfer their shares in Premium (**Scheme Shares**) to WAM.
- 2 As consideration for the Scheme Shares, Premium shareholders can elect to receive.
 - (a) (**Cash Consideration**) cash for up to 100% of their shares; or
 - (b) (**Scrip Consideration**) exchange up to 100% of their shares for shares in WAM. The number of new WAM shares to be issued to each shareholder who elects to receive Scrip Consideration will be calculated as set out in Appendix A. For each New WAM Share issued, WAM will also issue one option; or
 - (c) a combination of the above.
- 3 Following implementation of the Scheme, Premium's Board will be reconstituted with WAM nominees on the Implementation Date and WAM will appoint Lindsay Mann to its Board on the Implementation Date.
- 4 The SIA can be terminated by either party if the other party is in material breach of the SIA or a Court or Government Agency has taken action to restrain or prohibit the Scheme.

Conditions Precedent

- 5 Implementation of the Scheme is subject to the satisfaction or waiver of a number of conditions precedent including:
 - (a) **Scheme Meeting Approval:** Premium shareholders agree to the Scheme at the Scheme meeting by the requisite majorities under the Corporations Act;
 - (b) **Premium Material Adverse Change:** no Premium Material Adverse Change occurs before the Second Court Date, including any event that would prevent or delay Premium's ability to consummate the Scheme;
 - (c) **WAM Material Adverse Change:** no WAM Material Adverse Change occurs, before the Second Court Date, including any event that would prevent or delay WAM's ability to consummate the Scheme;
 - (d) **Premium Prescribed Occurrence:** no Premium Prescribed Occurrence occurs before the Second Court Date, including changes in the structure of Premium's share capital, Premium acquiring or disposing assets for more than \$200,000 or entering or terminating any contract involving revenue or expenditure of more than \$200,000 (without WAM's consent);
 - (e) **WAM Prescribed Occurrence:** no WAM Prescribed Occurrence occurs before the Second Court Date including WAM ceasing to carry on its business as it is currently conducted;
 - (f) **No breach of Premium Warranty:** WAM is satisfied that none of the Premium Warranties are incorrect before the Second Court Date; and

- (g) **No breach of WAM Warranty:** Premium is satisfied that none of the WAM Warranties is incorrect before the Second Court Date.

Recommendation of Premium's independent directors

- 6 The independent directors of Premium must unanimously recommend that Premium shareholders vote in favour of the Scheme unless they are required to do otherwise by law or because of their fiduciary duties.
- 7 The independent directors of Premium must give WAM at least three business days notice before announcing any change of recommendation.

Exclusivity

- 8 Under the SIA, Premium has agreed to the following exclusivity arrangements until the earlier of termination of the SIA and the Effective Date:
- (a) **(No shop restriction)** it will not solicit or invite competing transactions;
 - (b) **(No talk restriction)** it will not participate in any discussions or negotiations with any third party in relation to a competing transaction; and
 - (c) **(No due diligence)** it will not provide any due diligence information for the purposes of enabling a third party to make a competing transaction.
- 9 The 'no talk' and 'no due diligence' restrictions will not apply to a superior competing transaction that is not solicited in breach of the SIA if the fiduciary duties owed by the independent directors of Premium require them to consider the superior proposal, or they are required to consider the superior proposal by law.

Representations and warranties

- 10 Each of WAM and Premium has given representations and warranties which are normal for a transaction of this nature.
- 11 Premium has also given representations and warranties in relation to its obligations under the Investment Management Agreement with Treasury Group Investment Services Limited.