

1 February 2017

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Dear Sir/Madam

Takeover Bid by WHSP Hunter Hall Pty Ltd for Hunter Hall International Limited

We act for Hunter Hall International Limited ACN 059 300 426 (**HHL**) in relation to the takeover bid made by WHSP Hunter Hall Pty Ltd ACN 616 648 241 (**Bidder**) (a directly wholly owned subsidiary of Washington H. Soul Pattinson and Company Limited ACN 000 002 728 (**WHSP**) for all the issued shares of HHL not owned by WHSP (**WHSP Bid**).

In accordance with section 633(1) item 14 of the *Corporations Act 2001* (Cth), we enclose a copy of the target's statement by HHL and accompanying Independent Expert Report each dated 1 February 2017 relating to the WHSP Bid (**Target's Statement**).

HHL has today lodged a copy of the Target's Statement with the Australia Securities and Investments Commission and served a copy on the Bidder.

Yours faithfully



Hal Lloyd
Partner



HUNTER HALL INTERNATIONAL LIMITED

ABN 43 059 300 426

This is an important document and requires your immediate attention.
If you are in doubt as to how to act, you should consult your professional advisors.

TARGET'S STATEMENT

This Target's Statement has been issued in response to the takeover bid made by WHSP Hunter Hall Pty Ltd ACN 616 648 241, a directly wholly owned subsidiary of Washington H. Soul Pattinson and Company Limited ACN 000 002 728

**Your Independent Directors recommend that you
REJECT the Offer, which they consider significantly
undervalues your shares**

To reject the Offer, DO NOTHING

Target's legal advisor:

K&L GATES

Target's financial advisor:

MOELIS & COMPANY

Key Dates

Date of Offer	20 January 2017
Date of this Target's Statement	1 February 2017
Close of Offer Period (unless extended or withdrawn)	7.00pm (Sydney time) on 20 February 2017

Target's Statement

This is a Target's Statement made by Hunter Hall International Limited ACN 059 300 426 (**Hunter Hall**) under Part 6.5 of Chapter 6 of the Corporations Act in response to the Bidder's Statement given by WHSP Hunter Hall Pty Ltd ACN 616 648 241 (**Bidder**), a directly wholly owned subsidiary of Washington H. Soul Pattinson and Company Limited ACN 000 002 728 (**WHSP**) dated 20 January 2017, a copy of which was served on Hunter Hall on 11 January 2017.

Glossary

Capitalised terms used in this Target's Statement are explained in the glossary at the end of this document, along with certain rules of interpretation, which apply to this Target's Statement.

ASIC and ASX

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX. None of ASIC, the ASX nor any of their respective officers takes any responsibility for the contents of this Target's Statement.

No account of personal circumstances

This Target's Statement does not take into account your individual investment objectives, financial situation or particular needs. It does not contain personal financial or taxation advice. You may wish to seek your own independent legal, financial, taxation or other professional advice before making a decision as to whether or not to accept the Offer for your Hunter Hall Shares.

Forward-looking statements

The Target's Statement contains forward-looking statements. All statements other than statements of historical fact are forward-looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties, many of which are beyond the control of Hunter Hall.

Actual events or results may differ materially from the events or results expected or implied in any forward-looking statement. None of Hunter Hall, any of its officers, any person named in this Target's Statement with their consent, or any person

involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statements.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Privacy

Hunter Hall has collected your information from the Hunter Hall register of Hunter Hall Shareholders for the purpose of providing you with this Target's Statement. The type of information Hunter Hall has collected about you includes your name, contact details and information on your shareholding in Hunter Hall. Without this information, Hunter Hall would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Hunter Hall Shareholders to be held in a public register. Your name may be disclosed on a confidential basis to external service providers (such as print and mail service providers) and may be required to be disclosed to regulators such as ASIC and the ASX. If you would like to obtain details of the information held about you by Hunter Hall, please contact Hunter Hall's Company Secretary.



HUNTER HALL INTERNATIONAL LIMITED

ABN 43 059 300 426

1 February 2017

Dear Hunter Hall Shareholder,

On 30 December 2016, Washington H. Soul Pattinson and Company Limited (WHSP) agreed to acquire a 19.9% interest in Hunter Hall International Limited (Hunter Hall) from Hunter Hall's founder and former Chief Executive and Chief Investment Officer Peter Hall for \$1.00 per Hunter Hall Share. At the same time, WHSP announced its intention to make an off-market takeover offer for all of the fully paid ordinary shares in Hunter Hall not already owned by WHSP.

You should by now have received a Bidder's Statement from WHSP Hunter Hall Pty Ltd ACN 616 648 241 (a directly wholly owned subsidiary of WHSP) (Bidder). The Bidder's Statement sets out full details of the off-market takeover offer for your Hunter Hall Shares for \$1.00 per Hunter Hall Share (Offer).

Peter Hall owns a further 24.05% of Hunter Hall Shares and has indicated his current intention to accept the Offer in the absence of a superior proposal.

This Target's Statement sets out the reasons for the recommendation by your Independent Directors to **REJECT** the Offer.

The Independent Directors have welcomed WHSP as a highly reputable major shareholder in Hunter Hall and look forward to working with them to grow the business in the future, despite the Independent Directors' recommendation to Hunter Hall Shareholders to reject the Offer.

Recommendation

The Independent Directors have carefully considered the Offer and recommend that you **REJECT** the Offer as they consider that the Offer significantly undervalues your Hunter Hall Shares.

The key reasons for the Independent Directors' recommendation are:

- the Offer represents a material discount to recent market prices including:
 - a 69% discount to the closing price of Hunter Hall Shares on 23 December 2016 being the last closing price prior to the announcement of WHSP's intention to make a takeover bid;
 - a 69% and 74% discount to the 1 month and 6 month volume weighted average price (VWAP) to the closing price of Hunter Hall Shares on 23 December 2016 being the last closing price prior to the announcement of WHSP's intention to make a takeover bid; and
 - a 58% discount to the closing price of Hunter Hall Shares on 31 January 2017 being the last closing price prior to the release of this Target's Statement;
- the Independent Expert has concluded that the Offer is neither fair nor reasonable to non-associated Hunter Hall Shareholders and assessed the fair market value of Hunter Hall to be \$2.75 to \$3.20 per Hunter Hall Share versus the Offer of \$1.00 per Hunter Hall Share;
- the Independent Directors believe it is likely that the Hunter Hall Shares will trade above the Offer Consideration in the foreseeable future if the Offer fails and, subject to available liquidity, Hunter Hall Shareholders could sell their Hunter Hall Shares on-market and receive a materially higher price than the Offer Consideration;
- Hunter Hall is currently undertaking a strategic review and is committed to delivering stability and long-term value for all Hunter Hall Shareholders; and
- accepting the Offer may deprive you of the opportunity to participate in any superior proposal to acquire your Hunter Hall Shares or future value delivered through the strategic review process.

This Target's Statement explains in more detail the reasons for the Independent Directors' recommendations to reject the Offer, and I urge you to read it in full. You do not need to take any further action in order to reject the Offer.

Independent Expert's Report

This Target's Statement includes an Independent Expert's Report from Leadenhall Corporate Advisory Pty Ltd. The Independent Expert has concluded that the Offer is neither fair nor reasonable to non-associated Hunter Hall Shareholders.

Other Key Information

The Offer is open until 7.00pm (Sydney time) on 20 February 2017, unless extended.

The Independent Directors are committed to maximising value for all Hunter Hall Shareholders. Since Peter Hall tendered his resignation as Chief Investment Officer and resolved to sell his Hunter Hall Shares, the Independent Directors, in conjunction with its advisors and the Hunter Hall executive management team, have been exploring all available proposals to ensure a smooth transition of management and create value for all Hunter Hall Shareholders.

The Independent Directors will consider all offers that take into account and/or have the potential to enhance the strategic value of your Company and will keep you informed of any further developments.

Shareholders should note that on 23 January 2017, Pinnacle Investment Management Group Limited (**Pinnacle**) announced its intention, through its wholly owned subsidiary Pinnacle Ethical Investment Holdings Limited, to make an off-market takeover offer to acquire all of the shares in Hunter Hall at a price of \$1.50 per Hunter Hall Share, or \$2.00 per Hunter Hall Share if Pinnacle receives acceptances greater than 50% of the issued capital of Hunter Hall and subject to various additional conditions (**Pinnacle Offer**). The Independent Directors will provide an additional target's statement in response to the Pinnacle Offer in due course.

If you have any questions, please contact the Offer Information Line on 1300 889 468 (toll free within Australia) or +61 2 8022 7944 (outside Australia) which is open Monday to Friday between 9.00am and 5.00pm (Sydney time) or consult your professional advisor.

Yours sincerely



Kevin Eley

Non-executive Chairman

After taking into account each of the matters described in this document, in particular the reasons to REJECT the Offer set out in section 2, each of your Independent Directors recommends that you REJECT the Offer and TAKE NO ACTION.

The Independent Directors who own or control Hunter Hall Shares intend to reject the Offer in respect of their Hunter Hall Shares. The Independent Directors are set out in section 2 and information in respect of their respective shareholdings are set out in section 4.6.

If you have any questions, please call the Offer Information Line on 1300 889 468 (toll free within Australia) or +61 2 8022 7944 (outside Australia) which is open Monday to Friday between 9.00am and 5.00pm (Sydney time) or consult your professional advisor.

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1. Offer

1.1. Summary of the Offer

On 11 January 2017 the Bidder lodged its Bidder's Statement with ASIC which sets out the terms of the Offer. The key terms of the Offer are summarised in the "common questions" in section 3 of this Target's Statement. Hunter Hall Shareholders should read the Bidder's Statement for full details of the Offer.

WHSP announced the Offer after Peter Hall agreed to sell a 19.9% interest in the Target to WHSP. Peter Hall owns a further 24.05% of Hunter Hall Shares and has indicated his current intention to accept the Offer in the absence of a superior proposal.

If Peter Hall does accept the Offer, WHSP and the Bidder, its directly wholly owned subsidiary, will own at least 43.95% of Hunter Hall.

1.2. Background to the Offer

On 27 December 2016, Chief Investment Officer Peter Hall tendered his resignation to the Board of Hunter Hall for personal and family reasons. Mr Hall told the Board that he no longer wanted to manage the funds managed by Hunter Hall Investment Management Limited (HHIML) (a wholly owned subsidiary of Hunter Hall) and he initially wanted HHIML (as manager of the funds) to wind up the funds by realising fund assets to return money to the investors in the funds.

The Board of Hunter Hall considered alternatives to this approach and both Peter Hall and the Independent Directors received a number of approaches from parties interested in acquiring Hunter Hall Shares.

On 30 December 2016, Peter Hall advised the Independent Directors that he had agreed to sell part of his Hunter Hall Shares, equivalent to 19.9% of the issued share capital of Hunter Hall, to WHSP for \$1.00 per Hunter Hall Share. At the same time, WHSP announced their intention to make an off-market takeover bid for Hunter Hall.

Whilst the Independent Directors have welcomed WHSP as a highly reputable major Hunter Hall Shareholder and look forward to working with them to grow the business in the future, their immediate focus has been on reviewing and considering other strategic initiatives to ensure a smooth transition of management and create value for all Hunter Hall Shareholders.

This has included the appointment of the Company's Deputy CEO, Paula Ferrao, as Interim CEO and Deputy Investment Manager, James McDonald, as Interim Chief Investment Officer. As both Ms Ferrao and Mr McDonald and other members of the investment management team have been long-term employees of the Company, they were able to quickly reassure the Board that operations and investment management processes across the funds are continuing business as usual.

Other strategic initiatives have included, among other things:

- considering candidates, both internally and externally, for the Chief Executive Officer and Chief Investment Officer positions;
- continuing discussions with a number of strategic parties in relation to a potential merger with Hunter Hall; and
- exploring the potential buy-back of some or all of Peter Hall's residual 24.05% holding as an alternative to accepting the Offer (a selective buy-back would, however, require 75% of Hunter Hall Shareholder support, excluding Peter Hall's shares).

The Independent Directors remain in discussions with a number of strategic parties. The Independent Directors will continue to keep Hunter Hall Shareholders informed of any developments.

2. Independent Directors Recommendations

The Directors of Hunter Hall as at the date of this Target's Statement are:

Name	Position
Mr Peter Hall	Director
Mr Wayne Hawkins	Independent Director
Mr Kevin Eley	Independent Director, Non-executive Chairman
Mr David Groves	Independent Director

Given the nature of the transaction, and Peter Hall's direct involvement, the Hunter Hall Board has established a board committee of Independent Directors. The Independent Directors have undertaken a detailed review of the Offer in conjunction with its advisors as well as will consider all other strategic alternatives available to the Company.

2.1. Independent Directors' recommendation and intentions

In assessing the Offer, the Independent Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement and the conclusions of the Independent Expert.

Based on this assessment and for the reasons set out in this Target's Statement (in particular those set out in section 2.2), the Independent Directors believe that the consideration offered by the Bidder of \$1.00 for each Hunter Hall Share significantly undervalues your Hunter Hall Shares.

Accordingly, each of the Independent Directors recommend that you REJECT the Offer.

The Independent Directors who own or control Hunter Hall Shares intend to reject the Offer in respect of their Hunter Hall Shares (see section 4.6 for more information on the respective shareholdings of the Independent Directors).

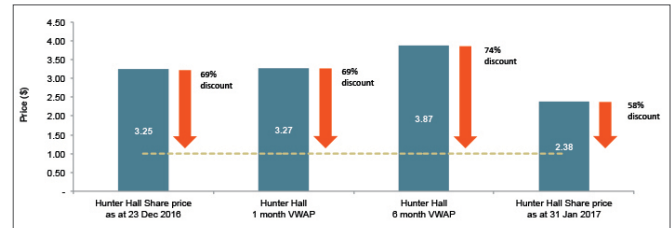
In considering whether to accept the Offer, the Independent Directors encourage you to:

- read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- consider the choices available to you as noted in section 2.7 of this Target's Statement; and
- obtain financial advice from your broker or financial advisor on the Offer and obtain taxation advice on the tax implications of accepting the Offer.

2.2. Reasons for the Independent Directors' recommendation

- The Offer is substantially inadequate and materially undervalues Hunter Hall

The Offer represents a material discount to the prevailing Hunter Hall Share price as illustrated in the graph below, whereas typically a premium is paid for control transactions of this nature in an Australian listed market context.



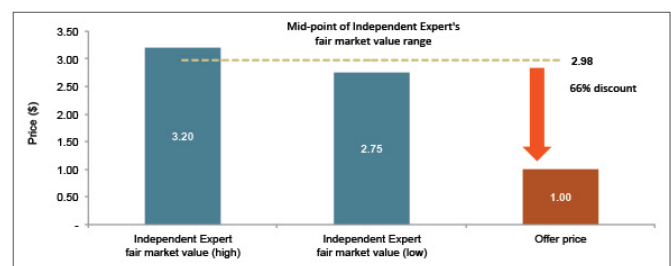
Subject to available liquidity, Hunter Hall Shareholders could sell their Hunter Hall Shares on-market and receive a materially higher price than the Offer.

- The Independent Expert has concluded that the Offer Consideration is neither fair nor reasonable to non-associated Hunter Hall Shareholders

Hunter Hall engaged Leadenhall Corporate Advisory to prepare an Independent Expert Report to assess the merits of the Offer.

The Independent Expert has:

- estimated the fair market value of the Hunter Hall Shares to be in the range of \$2.75 to \$3.20 per Hunter Hall Share; and
- the Offer Consideration is 66% lower than the mid-point of the range.



2. Independent Directors Recommendations

Continued

The Independent Expert has concluded:

- “As the value of a Hunter Hall share (on a control basis) is greater than the \$1.00 per share offered by WHSP, the Takeover offer is not fair”; and
- “the disadvantages outweigh the advantages. We have therefore concluded that the Takeover Offer is not reasonable”.

A full copy of the Independent Expert’s Report, which should be read in conjunction with this summary, accompanies this Target’s Statement as Appendix B. You should read this report carefully.

(c) The Hunter Hall Share price has consistently traded above the Offer Consideration

While there are many factors which affect the Hunter Hall Share price, the Independent Directors believe that it is likely that Hunter Hall Shares would trade above the Offer Consideration in the foreseeable future if the Offer was to fail.

As shown in the graph below, the Hunter Hall Share price has never traded at or below the Offer Consideration.

Hunter Hall Share price since IPO



In addition, as shown in the graph below, the Offer Consideration represents a substantial discount to the Hunter Hall Share price at all times over the last three years.

Hunter Hall Share price over last three years



Following the announcement of the Offer, Hunter Hall Shares have consistently traded well above the Offer Consideration on the ASX. This suggests the market considers that the Offer undervalues Hunter Hall Shares.

Subject to available liquidity, Hunter Hall Shareholders could sell their Hunter Hall Shares on-market and receive a materially higher price than the Offer.

(d) Accepting the Offer may deprive you of the opportunity to participate in any superior proposal to acquire your Hunter Hall Shares

If you accept the Offer, you will be restricted from dealing with your Hunter Hall Shares while the Offer remains open notwithstanding that the Offer contains a number of conditions which must be waived or satisfied in order for it to proceed (and for Hunter Hall Shareholders to receive the Offer Consideration).

Accepting the Offer may therefore limit your ability to participate in any superior proposal or sell your Hunter Hall Shares on-market.

(e) Hunter Hall is undertaking a strategic review and is committed to delivering stability and long-term value for all Hunter Hall Shareholders

Since Peter Hall tendered his resignation as Chief Investment Officer and agreed to sell 19.9% of his Hunter Hall Shares, the Independent Directors, in conjunction with their advisors and the Hunter Hall executive management team, have been exploring all available proposals to ensure a smooth transition of management and create value for all Hunter Hall Shareholders. The Hunter Hall executive management team intend to continue to do this after the close of the Offer Period, and regardless of whether Peter Hall has accepted the Offer in relation to the 24.05% of Hunter Hall Shares held by him.

The Independent Directors will consider all offers that take into account and/or have the potential to enhance the strategic value of your Company.

2.3. Risks associated with not accepting the Offer

(a) If the Bidder acquires a relevant interest in 90% of Hunter Hall Shares

If the Bidder (including the Hunter Hall Shares already held by its parent company, WHSP) acquires a Relevant Interest in 90% or more of Hunter Hall Shares under the Offer and is entitled to proceed to compulsory acquisition under the Corporations Act, the Bidder has indicated that it intends to compulsorily acquire all outstanding Hunter Hall Shares and Options. Following compulsory acquisition, it is likely that the Bidder will then seek to have Hunter Hall removed from the official list of the ASX.

(b) If the Bidder acquires a relevant interest in between 50.1% and 90% of Hunter Hall Shares

If the Bidder (including the Hunter Hall Shares already held by its parent company, WHSP) acquires a Relevant Interest in Hunter Hall Shares greater than 50% but less than 90%, it will gain effective control of Hunter Hall.

Hunter Hall Shareholders who have not accepted the Offer will become minority shareholders in Hunter Hall. This has a number of possible implications, including the following:

- the Bidder will be in a position to cast the majority of votes at a general meeting of Hunter Hall. This will enable the Bidder to control the composition of the Board and senior management, Hunter Hall's dividend policy and the strategic direction of the business of Hunter Hall;
- liquidity of Hunter Hall Shares may be lower than at present;
- the Bidder could proceed to compulsory acquisition should it become entitled to do so in the future. Therefore, non-accepting Hunter Hall Shareholders may still be forced to sell their Hunter Hall Shares where, sometime in the future, the Bidder becomes entitled to a Relevant Interest in Hunter Hall Shares equal to or greater than 90%;
- if the number of Hunter Hall Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the Bidder may seek to have Hunter Hall removed from the official list of ASX. If this occurs, Hunter Hall Shares will not be able to be bought or sold on the ASX; and
- if the Bidder (including the Hunter Hall Shares already held by WHSP) acquires a Relevant Interest in 75% or more of the Hunter Hall Shares, it will have sufficient voting power to pass a special resolution at a meeting of Hunter Hall Shareholders. This will enable the Bidder to, among other things, change Hunter Hall's constitution.

(c) If the Bidder acquires less than 50% of Hunter Hall Shares (including the Hunter Hall Shares already held by WHSP)

WHSP already holds 19.9% of Hunter Hall Shares which it acquired from Peter Hall on 30 December 2016. Peter Hall owns a further 24.05% of Hunter Hall Shares and has indicated his current intention to accept the Offer in the absence of a superior proposal.

The Bidder therefore will acquire at least a 43.95% interest in Hunter Hall Shares, if Peter Hall accepts the Offer. This would give the Bidder a substantial influence on the conduct of Hunter Hall's activities. WHSP (the parent company of the Bidder) has stated its current intention is to be a supportive long-term shareholder and cause minimal change to the operations of Hunter Hall.

(d) Future for Hunter Hall if the Offer fails

If Peter Hall accepts a competing proposal (but not the WHSP Offer), WHSP would hold 19.9% of Hunter Hall Shares and a competing bidder would hold 24.05%. This will be the case if Peter Hall considers the Pinnacle Offer to be superior to the Offer and accepts the Pinnacle Offer. Shareholders will separately need to consider the Pinnacle Offer. A separate target's statement will be sent to Hunter Hall Shareholders, in relation to the Pinnacle Offer in due course.

(e) Loss of confidence

Unitholders and shareholders in the underlying funds managed by HHIML (a wholly owned subsidiary of Hunter Hall) could decide to sell their shares or redeem their units, as a result of perceived uncertainty as a result of Peter Hall's departure as Chief Investment Officer of Hunter Hall. This could result in the share price of Hunter Hall falling.

(f) General risks

The future viability of Hunter Hall is also dependent on a number of other factors affecting performance of all industries including, but not limited to, the following:

- the strength of the equity and debt markets in Australia and throughout the world;
- risks associated with the current global economic and political environment;
- general economic conditions in Australia and its major trading partners and, in particular, inflation rates, interest rates, commodity supply and demand factors and industrial disruptions;
- financial failure or default by a participant in contractual relationship to which Hunter Hall is, or may become, a party; and
- industrial or other disputes in Australia and elsewhere in the world.

2. Independent Directors Recommendations

Continued

2.4. Bidder's intentions in relation to Hunter Hall

The general intentions of the Bidder (which are stated to be the same as WHSP) in relation to Hunter Hall, its business, assets and employees are set out in section 4 of the Bidder's Statement. These statements are statements of the Bidder's intentions at the date of the Bidder's Statement only, which may vary as new information becomes available or circumstances change.

2.5. Possible reasons for accepting the Offer

Some factors that may lead you to accept the Offer are set out below:

- (a) you may disagree with the recommendation of the Independent Directors and/or the conclusion of the Independent Expert;
- (b) you may believe the Hunter Hall Share price will decline in the future and not be able to sell your entire holding on-market; and/or
- (c) there may be tax benefits for you in accepting the Offer.

2.6. Taxation

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. Shareholders should obtain and rely on their own taxation advice in relation to the taxation consequences of disposing of their Hunter Hall Shares under the terms of the Offer.

2.7. Choices available to you

As a Hunter Hall Shareholder, you have the following choices in respect of the Offer:

- (a) you may choose to reject the Offer as recommended by the Independent Directors, in which case you do not need to take any action;
- (b) you may sell your Hunter Hall Shares on ASX (which may be at a higher or lower price than the Offer Consideration), in which case you should instruct your broker when you want to sell; or
- (c) you may accept the Offer, in which case you should follow the instructions set out in section 8.3 of the Bidder's Statement.

When deciding what to do, you should carefully consider the Independent Directors' recommendation and other important considerations set out in this Target's Statement. If you are in doubt as to how to act, you should consult your independent legal, financial or other professional advisor immediately.

3. Common questions about the Offer

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Hunter Hall Shareholders. This section should be read together with all other parts of this Target's Statement and the Bidder's Statement.

What is the Bidder's Statement?	The Bidder's Statement is the document setting out the terms of the Offer by the Bidder which has been sent to you in accordance with the Corporations Act.
What is this Target's Statement?	This Target's Statement has been prepared by the Independent Directors and provides Hunter Hall's response to the Offer, including the recommendation of the Independent Directors.
Who is the Offer made to?	The Offer is made to all persons who hold Hunter Hall Shares which WHSP does not already own (WHSP holds 5,434,653 Hunter Hall Shares). Section 8 of the Bidder's Statement sets out further details.
Who is the Bidder?	The Bidder is a directly wholly owned subsidiary of WHSP.
Who is WHSP?	WHSP is an ASX listed company with a focus on delivering returns over the long-term. You should refer to the Bidder's Statement for information on WHSP.
What is the Bidder offering for your Hunter Hall Shares?	The Bidder is offering \$1.00 for each Hunter Hall Share that you hold. The Offer is made in respect of all Hunter Hall Shares which WHSP does not already own.
What choices do I have as a Hunter Hall Shareholder?	As a Hunter Hall Shareholder you have the choice to do any of the following. <ul style="list-style-type: none"> Choose not to accept the Offer, in which case you do not need to take any action; Sell your Hunter Hall Shares on the ASX, which may be at a higher or lower price than the Offer Consideration. If you wish to sell your Hunter Hall Shares on the ASX you should not accept the Offer and should instruct your broker at the time you wish to sell; or Accept the Offer for all your Hunter Hall Shares. <p>Hunter Hall Shareholders should carefully consider the Independent Directors' recommendation and other important issues set out in this Target's Statement.</p>
What do your Independent Directors recommend?	The Independent Directors recommend that you REJECT the Offer.
What do the Independent Directors intend to do with their Hunter Hall Shares?	Each Independent Director who holds Hunter Hall Shares intends to REJECT the Offer in respect of their shareholdings.
What does the Independent Expert say?	The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE . The Independent Expert's Report, which should be read in conjunction with this summary, accompanies this Target's Statement as Appendix B.
How do I reject the Offer?	To REJECT the Offer, as recommended by the Independent Directors, you do not need to do anything .
How do I accept the Offer?	If you choose not to follow the Independent Directors' recommendation to reject the Offer, you can accept the Offer by returning the Acceptance Form that accompanied the Bidder's Statement and follow the instructions set out in section 8.3 of the Bidder's Statement. You may wish to seek independent financial and taxation advice from your professional advisor in relation to the action that you should take in relation to the Offer and your Hunter Hall Shares.

3. Common questions about the Offer

Continued

When do I have to make a decision?	<p>If you wish to follow the Independent Directors' recommendation and reject the Offer, you do not need to do anything.</p> <p>However, if you wish to accept the Offer, you must do this before the scheduled closing date. The Bidder has stated that the Offer remains open until 7.00pm (Sydney time) on 20 February 2017. It is possible that the Bidder may choose to extend the Offer Period in accordance with the Corporations Act. In addition, the Offer Period may be extended automatically in certain circumstances.</p>
What is the effect of accepting the Offer?	<p>The effect of acceptance of the Offer is set out in section 8.6 of the Bidder's Statement. Hunter Hall Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their Hunter Hall Shares and the representations and warranties which they give by accepting the Offer.</p>
What happens if I accept the Offer and a superior proposal is made?	<p>If you accept the Offer, you are only able to withdraw your acceptance in limited circumstances – namely if the Bidder varies the Offer in a way that postpones for more than one month the time by which it has to meet its obligations under the Offer (for example, by extending the Offer Period for more than one month while it remains conditional). So, if you accept the Offer, you may be unable to accept a superior proposal.</p>
What happens if the Offer Consideration is increased?	<p>If the Offer Consideration is subsequently increased by the Bidder after you have accepted the Offer, you will be entitled to the improved Offer Consideration.</p>
Can I be forced to sell my Hunter Hall Shares?	<p>You cannot be forced to sell your Hunter Hall Shares unless the Bidder proceeds to compulsory acquisition. The Bidder would need to acquire at least 90% of Hunter Hall Shares (under the Offer or otherwise) in order to exercise compulsory acquisition rights. If the Bidder acquires more than 90% of Hunter Hall Shares and proceeds to compulsory acquisition, then you will receive the same consideration as is payable by the Bidder under the Offer. See section 2.3 of this Target's Statement and section 4.5 of the Bidder's Statement for more details.</p>
What are the tax implications of accepting the Offer?	<p>You should seek independent taxation advice on the tax implications applicable to your circumstances.</p>
What are the conditions to the Offer?	<p>The Bidder has made the Offer subject to a number of conditions. These conditions include those relating to the following issues:</p> <ul style="list-style-type: none"> • No prescribed occurrences occurring in relation to Hunter Hall; • No actions affecting the business of Hunter Hall being undertaken by, or occurring in relation to Hunter Hall; and • No existence of certain rights triggered by a change of control of Hunter Hall. <p>The conditions are set out in full in section 8.7 of the Bidder's Statement and should be read carefully.</p>
What happens if I accept the Offer and the conditions are not satisfied?	<p>If the Offer conditions are not satisfied and the Bidder has not waived them by the end of the Offer Period, your acceptance of the Offer will be void and of no effect whatsoever. You will then be free to deal with your Hunter Hall Shares in another way.</p> <p>If the Offer conditions are satisfied or waived before the end of the Offer Period, you will be provided the Offer Consideration by the Bidder.</p> <p>Even where the Offer remains conditional, you cannot withdraw your acceptance before the end of the Offer Period, except in limited circumstances.</p>

3. Common questions about the Offer

Continued

How will I know when the Offer is unconditional?	The Bidder is required under the Corporations Act to advise Hunter Hall and its shareholders if the conditions to the Offer become satisfied or waived. The date for notification of the status of the conditions is 10 February 2017 (subject to extension in accordance with the Corporations Act).
Is there any cost in me accepting the Offer?	Hunter Hall Shareholders will not be required to pay brokerage or any other costs (apart from any personal taxation considerations) in relation to the sale of their Hunter Hall Shares under the Offer.
When will I receive the Offer Consideration?	<p>If you accept the Offer, you will receive the Offer Consideration on or before the earlier of:</p> <ul style="list-style-type: none"> the day that is one month after the date you accept the Offer or, if at the time of your acceptance the Offer is subject to a condition, one month after the Offer becomes, or is declared, unconditional; and the day that is 21 days after the end of the Offer Period. <p>You will be provided with a cheque in respect of the Offer Consideration (\$1.00 for each Hunter Hall Share that you hold).</p> <p>For more information, see section 8.9 of the Bidder's Statement.</p>
What if I am a foreign shareholder?	<p>If you are a foreign shareholder and you accept the Offer you will receive the Offer Consideration of \$1.00 for each Hunter Hall Share that you hold.</p> <p>Further details are set out in section 8.9 of the Bidder's Statement.</p>
Can the Bidder withdraw the Offer?	The Bidder can only withdraw its Offer with the consent in writing of ASIC, which consent may be subject to conditions.

4. Additional information

4.1. About Hunter Hall

Hunter Hall is a specialist global and Australian equity investment manager incorporated in Australia on 3 March 1993 and listed on the ASX on 28 February 2001.

Hunter Hall's funds management business is built on superior long-term investment performance with an ethical investment overlay. Hunter Hall's objective is to provide investors with superior returns over the medium to long-term by investing in stocks that are in Hunter Hall's opinion undervalued.

4.2. Publicly available information about Hunter Hall

Hunter Hall is a "disclosing entity" under the Corporations Act and as such has continuous disclosure and other reporting obligations under that Corporations Act and also under the ASX Listing Rules.

Copies of Hunter Hall's announcements are available from the ASX website (see www.asx.com.au – Hunter Hall's ASX code is 'HHL') and the Hunter Hall website (see www.hunterhall.com.au). Set out in Appendix A is a list of ASX announcements made by Hunter Hall since January 2016.

4.3. Financial position

The most recent audited financial statements of Hunter Hall are for the full year period ended 30 June 2016 and were released to the ASX on 11 August 2016. A copy of this document is available free from Hunter Hall on request.

On 20 January 2017, Hunter Hall also provided a market update providing guidance on its expected earnings for the half year ending 31 December 2016. The update stated that Hunter Hall expects Operating Revenue and Operating Profit before Tax to outperform the previous comparable period by 4% and 13%, respectively. A copy of the market update is available on the ASX website or alternatively a copy is available free from Hunter Hall on request. Hunter Hall intends to release its audited full year accounts to the market no later than the third week of February 2017.

The Independent Directors are not aware of any material change to Hunter Hall's financial position since 20 January 2017.

Section 4 of the Independent Expert's Report includes unaudited financial information for Hunter Hall as at 31 December 2016.

4.4. Issued securities

The total number of securities in Hunter Hall as at the date of this Target's Statement is 27,309,816 fully paid ordinary shares (of which 5,434,653 are already held by WHSP).

4.5. Substantial shareholders of Hunter Hall

As at the date of this Target's Statement, the substantial shareholders of Hunter Hall were:

Substantial Shareholder	Number of Shares	% Shares
Hampshire Assets and Services Pty Ltd, Peter Hall and associates	6,567,617	24.05%
Washington H. Soul Pattinson and Company	5,434,653	19.90%
John Bridgeman Limited and associates	1,415,547	5.18%

4.6. Directors' interests in Hunter Hall securities

As at the date of this Target's Statement, the Directors have the following interests, either directly or indirectly, in Hunter Hall Shares and Options:

Director	Shares	% of Issued	
		Capital	Options
Kevin Eley	60,000	0.22%	n/a
Peter Hall	6,567,617	24.05%	n/a
Wayne Hawkins	48,000	0.18%	n/a
David Groves	31,221	0.11%	n/a

4.7. Recent dealings by Directors in Hunter Hall Shares

Except as set out below, there have been no acquisitions or disposals by Directors of Hunter Hall Shares in the four months ending on the date immediately before the date of this Target's Statement.

Director	Acquisition	Disposal
Peter Hall	n/a	5,434,653

4.8. Directors' interests in WHSP (or the Bidder)

There have been no acquisitions or disposals by the Directors of WHSP Shares in the four months ending on the date immediately before the date of this Target's Statement.

4.9. Benefits and agreements

(a) **Benefits in connection with retirement from office**

No person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of Hunter Hall or related body corporate of Hunter Hall.

(b) **Agreements connected with or conditional on the Offer**

There are no agreements made between any of the Independent Directors and any other person in connection with, or conditional upon, the outcome of the Offer.

(c) **Benefits from WHSP**

None of the Independent Directors have agreed to receive, or are entitled to receive, any benefit from WHSP (or the Bidder) which is conditional on, or is related to, the Offer.

(d) **Interests of Directors in contracts with WHSP or the Bidder**

No Independent Director has any interest in any contract entered into by WHSP or the Bidder.

4.10. Management of potential conflicts of interest in relation to the Offer

Given the nature of the transaction, and Peter Hall's direct involvement, the Hunter Hall Board has established an independent board committee of Independent Directors. The Independent Directors will undertake a detailed review of the Offer in conjunction with its advisors as well as consider all other strategic alternatives available to the Company.

4.11. Material litigation and disputes

The Independent Directors are not aware of any material legal proceedings, arbitrations or disputes pending or threatened against Hunter Hall.

4.12. Potential impact of the Offer on material contracts

None of Hunter Hall's material contracts have a change of control clause which will be triggered if WHSP is successful in acquiring control of Hunter Hall.

Accordingly, the condition of the Offer that no person has any right (whether subject to conditions or not) as a result of the Bidder acquiring Target Shares to:

- (a) acquire, or require the Target or a subsidiary of the Target to dispose of, or offer to dispose of, any material asset of the Target or a subsidiary of the Target; or
- (b) terminate or vary any material agreement with the Target or a subsidiary of the Target, is satisfied.

4.13. Transactional expenses

The Offer has resulted in Hunter Hall incurring expenses that would not otherwise arise from trading in the current financial year. These expenses include the costs of the Independent Expert and legal fees, staff retention costs, printing and mailing costs associated with the Offer, and are anticipated to be approximately \$2,500,000.

4.14. When will you receive the Offer Consideration if you accept the Offer

The Offer Consideration will not be provided until after the Offer becomes unconditional. If you accept the Offer, you will receive the Offer Consideration on or before the earlier of:

- (a) one month after the Offer becomes unconditional; and
- (b) 21 days after the end of the Offer Period, provided the Offer has become unconditional.

The date for notification of the status of the conditions is 10 February 2017 (subject to extension in accordance with the Corporations Act).

4.15. Foreign shareholders

If you are a foreign shareholder and you accept the Offer you will receive the Offer Consideration of \$1.00 for each Hunter Hall Share that you hold.

4.16. No other material information

This Target's Statement is required to include all the information that Hunter Hall Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisors to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any Director.

The Independent Directors are of the opinion that the information that Hunter Hall Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- (b) the information contained in Hunter Hall's releases to the ASX, prior to the date of this Target's Statement; and
- (c) the information contained in this Target's Statement, including the information contained in the Independent Expert's Report.

4. Additional information

Continued

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidders' Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Independent Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors of Hunter Hall have had regard to:

- (a) the nature of the Hunter Hall Shares;
- (b) the matters that Hunter Hall Shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to Hunter Hall Shareholders' professional advisors; and
- (d) the time available to Hunter Hall to prepare this Target's Statement.

4.17. Consents

The following persons have given and have not, before the date of this Target's Statement, withdrawn their consent:

- (a) to be named in this Target's Statement in the form and context in which they are named;
- (b) for the inclusion of their respective reports or statements (if any) noted next to their names and the references to those reports or statements in the form and context in which they are included in this Target's Statement; and
- (c) for the inclusion of other statements in this Target's Statement which are based on or referable to statements made in those reports or statements, or which are based on or referable to other statements made by those persons in the form and context in which they are included.

Person	Named as	Reports or statements
K&L Gates	Legal advisors to Hunter Hall	Nil
Leadenhall Corporate Advisory	Independent Expert	Independent Expert's Report and the references to its conclusions in Appendix B of this Target's Statement
Computershare Investor Services Pty Limited	Share Registry	Nil
Moelis & Company	Financial advisors	Nil

Each of the above persons:

- (a) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements which are made, or based on statements made, in documents lodged by WHSP and the Bidder with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by WHSP and the Bidder. Pursuant to the Class Order, the consent of WHSP and the Bidder is not required for the inclusion of such statements in this Target's Statement. Any Hunter Hall Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting the Company's Company Secretary.

4.18. Date

This Target's Statement is dated 1 February 2017, which is the date on which it was lodged with ASIC.

4.19. Approval

This Target's Statement was approved by a resolution of the Independent Directors on 31 January 2017.

Signed for and on behalf of Hunter Hall International Limited:



Kevin Eley

Non-executive Chairman

1 February 2017

5.1. Defined Terms

Acceptance Form means the acceptance form that accompanies the Bidder's Statement.

ASIC means the Australian Securities and Investments Commission.

Associate has the same meaning as given in the Corporations Act.

ASX means the ASX Limited or the Australian Securities Exchange, as appropriate.

Bidder means WHSP Hunter Hall Pty Ltd ACN 616 648 241, a directly wholly owned subsidiary of WHSP.

Bidder's Statement means the bidder's statement in relation to the Offer as prepared by the Bidder and dated 11 January 2017.

Board means the board of Directors of Hunter Hall.

Company means Hunter Hall International Limited (ACN 059 300 426).

Company Secretary means the company secretary of Hunter Hall.

Corporations Act means the Corporations Act 2001 (Cth) as modified by any relevant exemption or declaration by ASIC.

Directors means the directors of Hunter Hall.

Hunter Hall means Hunter Hall International Limited (ACN 059 300 426).

Hunter Hall Share means a fully paid ordinary share in Hunter Hall.

Hunter Hall Shareholder means a person registered in the register of members of HHL as a holder of Hunter Hall Shares.

Independent Directors means the Directors, other than Peter Hall.

Independent Expert or **Leadenhall** means Leadenhall Corporate Advisory Pty Ltd.

Independent Expert's Report means the report prepared by the Independent Expert as to whether the Offer is fair and reasonable, and included as Appendix B to the Target's Statement.

Offer means the off-market takeover bid contained in the Bidder's Statement and made by the Bidder for all of the Hunter Hall Shares (other than Hunter Hall Shares already held by WHSP).

Offer Consideration means, as at the date of the Target's Statement, \$1.00 for each Hunter Hall Share.

Offer Period means the period during which the Offer will remain open for acceptance in accordance with section 8.2 of the Bidder's Statement.

Option means an option to subscribe for a Hunter Hall Share.

Pinnacle means Pinnacle Investment Management Group Limited (ACN 100 325 184).

Pinnacle Offer means the offer made by Pinnacle Ethical Investment Holdings Limited (ACN 616 932 711), a wholly owned subsidiary of Pinnacle, to acquire all of the shares in Hunter Hall at a price of \$1.50 per Hunter Hall Share or \$2.00 per Hunter Hall Share if Pinnacle receives acceptances greater than 50% of the issued capital of Hunter Hall and subject to various additional conditions.

Relevant Interest has the same meaning as given by sections 608 and 609 of the Corporations Act.

Target means Hunter Hall.

Target's Statement means this target's statement lodged with ASIC by Hunter Hall.

VWAP means volume weighted average price.

WHSP means Washington H. Soul Pattinson and Company Limited (ACN 000 002 728).

5.2. Interpretation

- (a) Unless specified otherwise, or otherwise required by the context, all words and phrases in this Target's Statement shall have the meanings given to them in the Corporations Act.
- (b) Headings are for convenience only and do not affect interpretation.
- (c) The following rules apply unless the context requires otherwise:
 - (i) the singular includes the plural and conversely;
 - (ii) a gender includes all genders;
 - (iii) if a word or phrase is defined, its other grammatical forms have a corresponding meaning;
 - (iv) a reference to a person includes a body corporate, an unincorporated body or other entity and conversely; and
 - (v) a reference to legislation or to a provision of legislation includes a modification or re-engagement of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.

Appendix A – ASX announcements

Dated Lodged	Description
31 January 2017	Becoming a substantial holder from HML
31 January 2017	Becoming a substantial holder
30 January 2017	PNI: Bidder's Statement
24 January 2017	HHV: Response to Wilson Asset Management
24 January 2017	Ceasing to be a substantial holder
24 January 2017	Receipt of Bidder's Statement
23 January 2017	SOL: Bidders Statement
23 January 2017	PNI: Intention to Make Takeover Bid
23 January 2017	PNI: Intention to Make Takeover Bid
23 January 2017	Change in substantial holding from SOL
20 January 2017	SOL: Bidder's Statement - Offer open
20 January 2017	Profit Guidance
11 January 2017	Chairman's Letter to Shareholders
11 January 2017	HHV: Company Update
11 January 2017	Receipt of Bidder's Statement
11 January 2017	SOL: Bidder's Statement
10 January 2017	Change in substantial holding – HHL
10 January 2017	Change in Director's Interest Notice
10 January 2017	Change in substantial holding – DRM
9 January 2017	Change in substantial holding for BSE
9 January 2017	Appointment of interim CEO and CIO
5 January 2017	Response to ASX Aware Letter
4 January 2017	Company Secretary Appointment/Resignation
4 January 2017	Change in substantial holding for BLK
4 January 2017	Notice of initial substantial shareholder from BKW
4 January 2017	MARKET UPDATE
3 January 2017	Becoming a substantial shareholder from SOL
30 December 2016	Change in substantial holding – BLK
30 December 2016	PETER HALL SELLS 19.9% OF HHL TO WHSP
30 December 2016	Proposal to acquire Hunter Hall International Limited
30 December 2016	Resignation of Chief Investment Officer
28 December 2016	Ceasing to be a substantial holder for SBM
28 December 2016	Trading Halt
22 December 2016	Ceasing to be a substantial holder for BDR
22 December 2016	Change in substantial holding – GID
14 December 2016	Becoming a substantial shareholder for FBR
13 December 2016	Change in substantial holding for SRX
29 November 2016	Becoming a substantial holder for EGH
25 November 2016	Change in substantial holding for BFG
23 November 2016	Change in substantial holding for BLK
21 November 2016	Becoming a substantial holder for M7T
16 November 2016	Results of Meeting
16 November 2016	Chairman's Address to Shareholders

Dated Lodged	Description
15 November 2016	Change in substantial holding for BLK
7 November 2016	Change in substantial holding for TLM
7 November 2016	Change in substantial holding for OTR
4 November 2016	Change in substantial holding for OTR
1 November 2016	Change in substantial holding for BLK
27 October 2016	Change in substantial holding for TLM
17 October 2016	Notice of Meeting and Proxy AGM 2016
14 October 2016	Ceasing to be a substantial holder – BFG
11 October 2016	Change in substantial holding for BLK
6 October 2016	Appendix 4G Corporate Governance disclosures
6 October 2016	Annual Report to shareholders
5 October 2016	Quarterly Funds Under Management – 30 September 2016
26 September 2016	Change in substantial holding for SBM
20 September 2016	Appendix 3B – DRP
20 September 2016	BLK: Change in substantial holding from HHL
19 September 2016	Update – Dividend/Distribution – HHL
8 September 2016	Final Director's Interest Notice – Mark Forstmann
24 August 2016	AQQ: Change in substantial holding from HHL
18 August 2016	Change of Director's Interest Notice – Mark Forstmann
16 August 2016	Director Resignation – Mark Forstmann
11 August 2016	Dividend/Distribution – HHL
11 August 2016	HHL Shareholder Presentation
11 August 2016	Profit Announcement FY16
11 August 2016	Preliminary Final Report
11 August 2016	Dividend Reinvestment Plan – amended terms and conditions
11 August 2016	Change in substantial holding for DRM
1 August 2016	Change in substantial holding for SBM
25 July 2016	Change in substantial holding for BDR
18 July 2016	SBM: Change in substantial holding from HHL
13 July 2016	Change in substantial holding for AVH
12 July 2016	TLM: Change in substantial holding from HHL
6 July 2016	SBM: Change in substantial holding from HHL
1 July 2016	Quarterly funds under management – 30 June 2016
1 July 2016	Appendix 3B – issue pursuant to executive share plan
29 June 2016	Becoming a substantial shareholder for AQQ
28 June 2016	TLM: Change in substantial holding from HHL
28 June 2016	SRG: Change in substantial holding from HHL
27 June 2016	DRM: Change in substantial holding from HHL
23 June 2016	Becoming a substantial shareholder for BLK
22 June 2016	DRM: Change in substantial holding from HHL
7 June 2016	SBM: Change in substantial holding from HHL
31 May 2016	BDR: Becoming a substantial holder from HHL
30 May 2016	MVP: Ceasing to be a substantial holder – HHL

Appendix A – ASX announcements

Continued

Dated Lodged	Description
30 May 2016	TLM: Change in substantial holding – HHL
27 May 2016	Profit Guidance
27 May 2016	GID: Change in substantial holding from HHL
27 May 2016	SRG: Change in substantial holding from HHL
20 May 2016	DRM: Change in substantial holding from HHL
16 May 2016	TLM: Change in substantial holding from HHL
11 May 2016	SBM: Change in substantial holding from HHL
11 May 2016	OTR: Change in substantial holding from HHL
9 May 2016	BFG: Becoming a substantial holder from HHL
22 April 2016	PVE: Ceasing to be a substantial holder from HHL
21 April 2016	Becoming a substantial holder from Microequities
15 April 2016	OTR: Change in substantial holding from HHL
5 April 2016	Director Appointment – Mr David Groves
4 April 2016	Quarterly funds under management – 31 March 2016
4 April 2016	Appendix 3B
22 March 2016	SBM: Change in substantial holding from HHL
21 March 2016	TLM: Becoming a substantial holder from HHL
21 March 2016	Revised terms and conditions of Dividend Reinvestment Plan
14 March 2016	SBM: Change in substantial holding – HHL
14 March 2016	BSE: Change in substantial holding from HHL
9 March 2016	Update – Dividend/Distribution – HHL
7 March 2016	Dividend Reinvestment Plan – calculation of issue price
22 February 2016	MVP: Becoming a substantial holder from HHL
16 February 2016	AVH: Change in substantial holding from HHL
15 February 2016	Update – Dividend/Distribution – HHL
15 February 2016	Update – Dividend/Distribution – HHL
15 February 2016	Securities Trading Policy
12 February 2016	HHL Shareholder Presentation
12 February 2016	Dividend/Distribution – HHL
12 February 2016	Half Yearly Report and Accounts
11 February 2016	OTR: Becoming a substantial holder from HHL
10 February 2016	BSE: Change in substantial holding from HHL
10 February 2016	DRM: Change in substantial holding from HHL
9 February 2016	BSE: Becoming a substantial holder from HHL
8 February 2016	Final Director's Interest Notice – David Deverall
5 February 2016	DRM: Change in substantial holding from HHL
19 January 2016	Director Resignation and Trading Update
5 January 2016	Funds under management 31 December 2015
4 January 2016	Termination of Portfolio Manager Share Plan



HUNTER HALL INTERNATIONAL LIMITED

TAKEOVER OFFER FROM WASHINGTON H SOUL PATTINSON & COMPANY LIMITED

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE
1 FEBRUARY 2017



1 February 2017

The Independent Directors
Hunter Hall International Limited
GPO Box 3955
Sydney NSW 2001

Dear Directors,

Independent Expert's Report for Hunter Hall International Limited

1. Introduction

Hunter Hall International Limited ("**Hunter Hall**") is a specialist global equities investment manager that is listed on the Australian Securities Exchange ("**ASX**"). Hunter Hall was founded in 1993 by Peter Hall.

Washington H Soul Pattinson & Company Limited ("**WHSP**") is an ASX listed conglomerate with a market capitalisation of approximately \$4.4 billion as at 30 January 2017. WHSP has a wide range of business interests including investment management.

On 30 December 2016 Hunter Hall announced that Peter Hall had resigned as Chief Investment Officer and had agreed to sell a 19.9% interest in Hunter Hall to WHSP for \$1.00 per share. On the same day, WHSP announced its intention to make a takeover offer for the remaining equity in Hunter Hall for \$1.00 per share in cash ("**Takeover Offer**"). The Takeover Offer was formalised in a Bidder's Statement ("**Bidder's Statement**") which was released on 11 January 2017.

Further information regarding the Takeover Offer is set out in Section 1 of this report.

2. Purpose of the report

The Directors of Hunter Hall are required to issue a Target's Statement ("**Target's Statement**") in response to the Takeover Offer. In order to assist Hunter Hall shareholders not associated with WHSP ("**Shareholders**") evaluate the Takeover Offer, the independent directors of Hunter Hall have requested Leadenhall Corporate Advisory Pty Limited ("**Leadenhall**") to prepare an independent expert's report advising whether the Takeover Offer is fair and reasonable.

This report is to be included in the Target's Statement that will be sent to Hunter Hall's shareholders regarding the Takeover Offer.

Further information regarding the purpose of this report is provided in Section 2 of this report.

3. Basis of evaluation

In order to assess whether the Takeover Offer is fair and reasonable we have:

- ◆ Assessed it as fair if the consideration offered by WHSP is greater than or equal to the value of a Hunter Hall share on a control basis
- ◆ Assessed it as reasonable if it is fair, or if despite not being fair the advantages to Shareholders outweigh the disadvantages

Further details of the basis of evaluation are provided in Section 2 of this report.

4. Analysis of fairness

We have assessed the current fair market value of Hunter Hall based on the discounted cash flow methodology, considering three potential scenarios as follows:

- ◆ **Base case** – based on a three-year forecast prepared by Hunter Hall management which includes consideration of likely Funds under Management (“FUM”) losses due to the departure of Mr Hall. In this scenario, the Hunter Hall Global Value Limited (“HHV”) investment management agreement (“IMA”) is renewed indefinitely and it is assumed that there is no share buy-back undertaken by HHV. The base case also assumes no performance fees are earned
- ◆ **Pessimistic case** – assumes that FUM outflows are higher than the base case, the HHV IMA is terminated at the end of the current term (in March 2029), a 15% buy-back occurs in HHV in April 2017 and no performance fees are earned
- ◆ **Optimistic case** – assumes that FUM outflows are lower than the base case, the IMA is renewed indefinitely, there is no buy-back in HHV, market returns are higher than the base case and performance fees are earned

We have applied a discount rate of 11.5% to 12.5% to these cash flows.

Based on this analysis we have determined the range of values for Hunter Hall shares as set out in the table below.

Table 1: Valuation of Hunter Hall (\$'000)

Description	Low Case		Base Case		High Case	
	Low	High	Low	High	Low	High
Present value of projected cash flows	22,897	24,058	30,384	31,966	41,241	43,405
Terminal value	6,862	8,613	13,763	17,275	18,838	23,645
Surplus assets	17,820	17,820	17,820	17,820	17,820	17,820
Non-operating liabilities	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Net cash	10,867	10,867	10,867	10,867	10,867	10,867
Equity value on a control basis	56,195	59,108	70,583	75,678	86,515	93,487
Number of share on issue	27,310	27,310	27,310	27,310	27,310	27,310
Equity value per share (\$)	2.06	2.16	2.58	2.77	3.17	3.42

Source: Leadenhall Analysis

Based on the analysis above, we have assessed the value of a Hunter Hall share to be in the range of \$2.75 to \$3.20 on a control basis. In selecting this range, we have considered:

- ◆ The base case includes somewhat conservative assumptions in relation to performance fees and distributions
- ◆ The potential to lose the management rights for HHV is somewhat mitigated by the strong legal protection afforded by the HHV IMA. There are also practical difficulties that would be faced by a third party seeking to force a buy-back by HHV, thus reducing the likelihood of the low case
- ◆ None of the scenarios considered include any allowance for cost savings or other synergies that may be realised by a potential acquirer. A likely buyer of Hunter Hall (including both WHSP and Pinnacle) would be able to realise cost savings from acquiring the business

As a result of these considerations, we consider the high case to be somewhat more likely than the low case and have therefore selected a valuation range spanning the upper end of the base case to the lower end of the high case.

The result from this methodology was cross-checked using a capitalisation of future maintainable earnings and share market trading analysis. Further details of the valuation of Hunter Hall are set out in Section 6 of this report.

As the value of a Hunter Hall share is greater than the \$1.00 per share offered by WHSP, the Takeover Offer is not fair.

5. Analysis of reasonableness

We have defined the Takeover Offer as being reasonable if it is fair, or if despite not being fair, the overall advantages of the proposal outweigh its disadvantages to Shareholders. We have therefore considered the advantages and disadvantages to Shareholders of the Takeover Offer.

Advantages

We have not identified any significant advantages of the Takeover Offer relative to other alternatives currently available to Shareholders.

Disadvantages

The main disadvantages of the Takeover Offer are:

- ◆ **Significant discount to market price** - The Takeover Offer is at a significant discount (approximately 60%) to recent market trading in Hunter Hall shares. Shareholders who wish to sell could therefore realise a higher price by selling on the market rather than by accepting the Takeover Offer
- ◆ **Limited value attributed to the Hunter Hall business** - Hunter Hall has investments in its funds, cash and other non-operating assets equivalent to \$0.97 per share. As a result, the offer price implicitly is only attributing \$0.03 per share or just \$0.8 million to the operating business of Hunter Hall
- ◆ **Superior competing offer** - On 23 January 2017 Pinnacle Investment Management Group Limited ("Pinnacle") announced its intention to make a competing offer for Hunter Hall at a materially higher price of \$1.50 per share, increasing to \$2.00 per share if it reaches a 50% holding in Hunter Hall. On 30 January 2017, Pinnacle lodged a bidder's statement formalising their competing offer on the same terms as the original announcement

Conclusion on reasonableness

In evaluating the reasonableness of the Takeover Offer we note in particular that the price is considerably below the market trading price for Hunter Hall shares and that the advantages of the Takeover Offer are limited. Thus in our opinion the disadvantages outweigh the advantages. We have therefore concluded that the Takeover Offer is not reasonable.

6. Opinion

In our opinion, the Takeover Offer is neither fair nor reasonable to Shareholders.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully



Richard Norris
Director



Dave Pearson
Director

Note: All amounts stated in this report are in Australian dollars unless otherwise stated.

Tables in this report may not add due to rounding.

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of \$50,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Takeover Offer.

Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Financial Ombudsman Service ("FOS"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

1 February 2017

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1 THE TAKEOVER OFFER

On 30 December 2016, Hunter Hall announced that Peter Hall (founder and Chief Investment Officer) had sold part of his shareholding, equivalent to 19.9% of the issued capital of Hunter Hall, to WHSP for \$1.00 per share. On the same date WHSP announced that it intended to make a takeover offer for the remaining 80.1% of the equity in Hunter Hall. The Takeover Offer is a conditional offer of \$1.00 cash for each Hunter Hall share. The main conditions which the Takeover Offer is subject to are:

- ◆ No prescribed occurrences which mainly pertain to changes in the share capital of Hunter Hall during the offer period, the disposal of a substantial part of Hunter Hall's business, the granting of a security interest over a substantial part of the business and the occurrence of an insolvency event
- ◆ Restrictions in relation to the conduct of Hunter Hall's business including in relation to the declaration and payment of dividends, changes to the company constitution, provision of encumbrances over assets, new borrowings, entering or varying contracts of service with any director, manager or fund manager and the commencement of any court proceedings
- ◆ No person having any rights to require Hunter Hall, or any of its subsidiaries, to dispose of any material asset or terminate/vary any material agreement

If WHSP acquires 90% or more of the shares outstanding in Hunter Hall following the Takeover Offer it intends to proceed to a compulsory acquisition of the remaining shares in Hunter Hall. WHSP's intentions for Hunter Hall following completion of the Takeover Offer, should it fail to reach a 90% holding, include:

- ◆ Assisting Hunter Hall to maintain its investment style and philosophy, culture and practices and, where possible, to grow the business
- ◆ Maintaining Hunter Hall's listing on the ASX
- ◆ Seeking to appoint nominees to the Hunter Hall Board
- ◆ Undertaking a review of Hunter Hall's operations
- ◆ Assisting the Hunter Hall Board with the appointment of a new Chief Investment Officer

Further details of the terms of the Takeover Offer are set out in the Bidder's Statement.

2 SCOPE

2.1 Purpose of the report

Section 640 of the Corporations Act 2001 ("**Section 640**") requires an independent expert's report to be prepared in relation to a takeover offer if either:

- ◆ The bidder's voting power in the target is 30% or more
- ◆ The bidder and target have one or more common directors

As WHSP does not have any directors in common with Hunter Hall and does not hold greater than 30% of its shares, there is no formal requirement for an independent expert's report in relation to the Takeover Offer. However, the directors of Hunter Hall have requested Leadenhall to prepare an independent expert's report, as if it was required under Section 640, to assist Shareholders evaluate the Takeover Offer.

2.2 Basis of evaluation

Section 640 requires an independent expert to assess whether a takeover offer is fair and reasonable to Shareholders. Neither the ASX Listing Rules nor the Corporations Act 2001 define the term '*fair and reasonable*' and neither contains any guidance on what should be considered when assessing whether a proposed transaction is fair and reasonable. However, guidance on what an independent expert should consider and how '*fair and reasonable*' should be defined is contained in Regulatory Guide 111: Content of Expert Reports ("**RG 111**") issued by the Australian Securities and Investments Commission ("**ASIC**"). RG 111.10 states that there should be separate assessments of whether a control transaction is '*fair*' and whether it is '*reasonable*'. We have therefore considered the concepts of '*fairness*' and '*reasonableness*' separately as discussed below.

Fairness

RG 111.11 defines a takeover offer as being fair if the value of the consideration is equal to, or greater than, the value of the securities subject to the offer. Accordingly, we have assessed whether the Takeover Offer is fair by comparing the value of a Hunter Hall share with the consideration offered to Shareholders.

The value of a Hunter Hall share has been determined on a control basis (i.e. including a control premium). This is consistent with the requirement of RG 111.11 that the comparison for a takeover must be made assuming a 100% interest in the target company.

We have assessed the value of a Hunter Hall share using the concept of fair market value, which is defined by the International Glossary of Business Valuation Terms as:

The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.

While there is no explicit definition of value in RG 111, this definition of fair market value is consistent with the basis of value described at RG 111.11 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Our assessed value of Hunter Hall does not include any special value in accordance with RG 111.

Reasonableness

In accordance with RG 111, we have defined the Takeover Offer as being reasonable if it is fair, or if, despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to accept the offer. We have therefore considered whether the advantages to Shareholders of the Takeover Offer outweigh the disadvantages. To assess the reasonableness of the Takeover Offer we have considered the following significant factors recommended by RG 111.13:

- ◆ The shareholder composition of Hunter Hall, including WHSP's existing 19.9% holding
- ◆ The liquidity of the market in Hunter Hall's shares
- ◆ Taxation losses, cash flow or other benefits through achieving 100% ownership of Hunter Hall
- ◆ Any special value of Hunter Hall to WHSP
- ◆ The likely market price of Hunter Hall shares if the Takeover Offer lapses
- ◆ The value of Hunter Hall to an alternative bidder and the likelihood of an alternative offer

We have also considered the other significant advantages and disadvantages to Shareholders of the Takeover Offer.

2.3 Individual circumstances

We have evaluated the Takeover Offer for Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Takeover Offer from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Takeover Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of this Takeover Offer on their specific financial circumstances.

3 FUNDS MANAGEMENT INDUSTRY

3.1 Summary

Fund managers invest money on behalf of clients through collective investment vehicles or separate accounts. These investment services are provided to clients for a fee, the clients bear all credit, market and liquidity risks and share in any losses or gains made. As at 30 September 2016, the managed funds industry in Australia had \$2.8 trillion of FUM according to the Australian Bureau of Statistics. This FUM was split between the following types of institutions:

- ◆ Superannuation funds (77.8% of total FUM)
- ◆ Public offer (retail) unit trusts (11.9% of total FUM)
- ◆ Life insurance corporations (8.3% of total FUM)
- ◆ All other managed funds institutions (2.0% of total FUM)

Industry revenue is forecast to grow at an annualised 6.7% over the five years to FY17. This growth has been driven by FUM inflows (predominantly from superannuation) and market increases over time.

Strong industry performance is expected to continue in the future, predominantly supported by ongoing FUM inflows from Australia's compulsory superannuation scheme. However, downward pressure on management fees caused by increasing competition (such as direct investment by larger retail and institutional investors and the increasing prominence of low fee index tracking products), may negatively impact industry profitability.

The industry has seen consolidation over recent years as a result of acquisitions and attrition of smaller funds. This has led to higher margins, particularly for larger fund managers, as there is a high level of fixed costs within the industry.

3.2 Industry structure and participants

The industry is made up of large institutional fund managers and smaller boutique investment managers. Boutique fund managers generally manage anywhere between \$300 million and \$2 billion, while larger fund managers typically manage over \$300 billion. Smaller funds often have clear investment strategies, but are disadvantaged due to their relative lack of resources compared with larger fund managers. A summary of the three largest players in the Australian funds management market is provided in the table below:

Table 2: Three largest Australian Fund Managers

Fund Manager	Description	FUM (\$ billion)
Macquarie Group	Macquarie Group operates in the industry through Macquarie Asset Management (" MAM "). MAM is a full-service asset manager, offering a diverse range of products including infrastructure and real asset management, securities and investment management and tailored investment solutions over funds and listed equities.	\$476.9
Commonwealth Bank of Australia (" CBA ")	CBA operates in the industry through its subsidiaries Colonial First State Global Asset Management (" CFSGAM ") and Colonial First State (" CFS "). CFSGAM focuses on serving institutional investors and manages a range of asset classes including equity, debt securities, infrastructure and property. CFS focuses on retail investors and provides wealth management and superannuation services.	\$345.3
AMP Limited (" AMP ")	AMP operates in the industry through its AMP Capital division. In addition to managing investments across all major asset classes, AMP Capital provides commercial, industrial and retail property management services.	\$160.4

Source: IBISWorld and company websites

Note: Macquarie Group FUM as at 31 March 2016, CBA and AMP FUM as at 30 June 2016

Large institutional fund managers are often restricted to investing in companies with relatively large market capitalisations, and thus their returns are often closely correlated to market indices. Due to this a large number of boutique fund managers have emerged that seek to differentiate their products without the constraints of a larger operation. The emergence of boutique fund managers has been assisted by the development of specialised distribution businesses that can be engaged by boutique fund managers, allowing the managers to concentrate on investment decision making rather than marketing and distribution.

Whilst there are many boutique fund managers in the Australian market, there are two main players that have an ethically focussed investment policy, as summarised in the table below:

Table 3: Australian fund managers with ethical investment focus

Fund Manager	Description	FUM (\$ billion)
Australian Ethical Investment	Australian Ethical Investment was established in 1986 and is a funds management and superannuation company that takes an ethical approach to investment decisions to ensure capital is used for the good of people and the planet.	\$1.7
Hunter Hall	Founded in 1993, Hunter Hall is a specialist global and Australian equity investment manager and one of Australia's largest dedicated ethical investment managers.	\$1.2

Source: Company Websites

Note: FUM is as at 30 September 2016 (latest available)

A number of other large and boutique fund managers have individual products that have an ethical investment mandate, however they do not employ an ethical investment philosophy across all of their products. The Responsible Investment Association of Australia estimates that total funds under management in responsible investment portfolios in Australia totalled \$633.2 billion as at 31 December 2015, compared to just \$13.9 billion in 2002.

Industry participant numbers have declined by approximately 18% over the past five years, primarily due to consolidation. Despite this, industry employment has increased over the same period, recovering from a low base after the downsizing which occurred during the global financial crisis.

3.3 Key success factors

The key success factors for operators in the funds management industry are summarised below:

- ◆ **Historical returns:** fund managers with strong historical investment returns are more likely to attract investors
- ◆ **Investment team:** a highly experienced and qualified investment team with a good track record and suitable retention incentives are hallmarks of successful funds management enterprises
- ◆ **Ratings:** when choosing a fund manager, investors often consider ratings given to funds and fund managers. Therefore, good relationships with ratings providers, coupled with adequate relative performance and investment team perception, can ensure that ratings agencies have sufficient information available to make their assessments
- ◆ **Distribution network:** fund managers with extensive distribution networks, generally through relationships with financial advisers, have the ability to grow FUM (particularly retail) more quickly and spend less time and money on marketing
- ◆ **Size:** the amount of FUM may impact the investment decisions of some larger institutional investors which may be restricted from investing with smaller fund managers
- ◆ **Access to technology:** industry operators should develop modern communications and analytical solutions to reduce the cost of building/maintaining portfolios and delivering services to clients

3.4 Products, services and major markets

A brief overview of the products, services and major markets of the funds management industry is provided in the table below.

Products & Services	Major Markets
<p>Australian equities: Australian equities include listed company shares, shares in unlisted companies and units issued in both listed and unlisted unit trusts which hold equities as underlying assets. The proportion of funds invested in equities has increased over the past five years due to the strong performance of the share market and investors' willingness to take on riskier and higher yield investments as market performance improved.</p>	<p>Superannuation funds: Australia has a compulsory superannuation scheme, whereby employers make contributions into employees' nominated superannuation funds. Superannuation funds may then engage fund managers to invest client money on their behalf. FUM from superannuation contributions has continued to grow over the past five years, however this growth will decline in the future as more Australians reach retirement age.</p>
<p>Overseas assets: Overseas asset investments include both debt and equity securities. Following a low base year brought about by the adverse impact of the global financial crisis, the value of overseas assets has generally increased over the past five years as stability has returned to international markets. Improved technology and market transparency have also facilitated cross-border transactions.</p>	<p>Wholesale financial trusts: Institutional clients are large sophisticated investors that include insurance companies, financial companies and fund administrators that outsource the management of their investment funds. These clients typically invest in wholesale financial trusts, which are only open to institutional investors and high net-worth individuals.</p>
<p>Australian real estate: This segment comprises investments in commercial and industrial real estate. Several fund managers specialise in developing real estate portfolios. Over the last five years, the stronger performance of equity markets has resulted in decreased demand for real estate based products.</p>	<p>Government sources: Governments often need to invest excess funds. Over the past five years investment from state governments has been increasing due to the sale of government assets. However, federal government investment has been decreasing as the government attempts to reduce the budget deficit.</p>
<p>Australian debt securities: This segment includes short-term and long-term debt securities. Over the past five years, Australian debt securities have been attractive to investors in this class of assets because of their attractive risk adjusted returns relative to global bond markets.</p>	<p>Overseas investors: This market is made up of various overseas investors, including retail, institutional and government clients from outside Australia. The portion of overseas funds managed by Australian fund managers has grown significantly over the past five years. An estimated 65% of the funds from this market are derived from Asia-Pacific based investors.</p>
<p>Deposits: Funds in this segment are held in cash and invested with banks and other institutions in return for interest payments. This class of asset grew in popularity following the global financial crisis when investor confidence was low.</p>	<p>Public unit trusts: Public unit trusts include listed property trusts, listed equity trusts and unlisted equity trusts, while cash management trusts usually limit their investments to securities available in short-term money markets. Investing in public trusts is achieved by purchasing the units of those trusts. A fund manager is then employed to invest those funds on behalf of the trust.</p>
<p>Other assets: Other assets include derivatives, other financial assets and non-financial assets. The proportion of funds invested in this segment has declined over the past five years as investors have tended to shift funds to domestic equities and overseas assets.</p>	<p>Other: Other markets include cash management trust, individual retail investors and life and general insurance companies where premiums paid by clients are pooled and invested, often through fund managers.</p>

Source: IBISWorld

3.5 Industry outlook

Total FUM in Australia increased by 42% over the five years to September 2016, from \$1.95 trillion to \$2.77 trillion. This growth in FUM was the main driver of industry revenue growth over this period. Several factors are expected to drive demand for funds management services over the next five years, including an ageing population, increasing superannuation contributions, growing wealth and new and evolving investment products. Strong share market performance and rising investor confidence are also expected to contribute to FUM growth. However, revenue growth is expected to be more modest due to continued fee erosion from increased competition.

Alternative investments (e.g. real estate, hedge funds, private equity and infrastructure) have grown in popularity over the past decade and this trend is expected to continue over the next five years. Investor confidence in these asset classes is anticipated to rise as pricing methods and the set of historical returns improves. Growing interest in alternative asset classes is likely to provide a small boost for the industry as management fees in these niche areas are often higher.

As well as new asset class development, client demands are expected to change over the next five years and industry operators will have to accommodate this shift. In particular, as the Australian population ages, more emphasis will likely be placed on portfolios that provide income streams rather than capital growth. More investors are likely to opt for passive investment strategies amid an increasing focus on cost, as many managers of active investment funds will continue to struggle to outperform the benchmark returns.

Industry consolidation is expected to continue over the next five years, with the growing size of superannuation funds likely to lead to fund management capabilities being brought in house. Outsourcing has been a growing trend with fund managers increasingly transferring back office operations to specialist third party providers. Economies of scale from industry consolidation and an increased focus on cost savings are expected to allow investment managers to continue lowering fees without significantly affecting their profit margins.

Increased integration of technology is also likely to have an impact on the industry. Fund managers are increasingly integrating their digital wealth management platforms, offering clients greater convenience when using their services. Some industry players have also introduced 'robo-advice' platforms, which offer their clients computer generated financial advice based on their spending behaviour, risk tolerance, asset allocation preferences and expected investment returns.

4 PROFILE OF HUNTER HALL

4.1 Introduction

Founded in 1993, Hunter Hall is a specialist global and Australian equity investment manager and one of Australia's largest dedicated ethical investment managers. Hunter Hall's strategy is to offer a range of responsibly invested equities funds with a value and small-mid caps bias. Hunter Hall's objective is to provide investors with superior returns over the medium to long term by investing in stocks that are in Hunter Hall's opinion undervalued.

Hunter Hall is an active investment manager that employs a team of analysts and investment managers that rely on analytical research, forecasts and their experience to make investment decisions with the aim of constructing a portfolio of securities that outperforms the relevant market index benchmark. This is in contrast to passive investment products, whereby portfolios are constructed to track market indices and returns are therefore reflective of market returns.

Hunter Hall employs a value investment strategy which is based on the view that equity markets are inefficient and opportunities exist to identify securities that are temporarily priced below their intrinsic value. By identifying and investing in these securities, Hunter Hall expects to generate above market returns.

Hunter Hall has a longer-term investment focus with a recommended investment timeframe of more than five years for each of its funds. Whilst short-term returns may fluctuate significantly, the aim of Hunter Hall is to outperform the relevant benchmarks over the longer term. In this respect, each of Hunter Hall's funds, except the Global Deep Green Trust, has outperformed its benchmark since inception (further information regarding individual fund performance is included in Section 4.3 below). The second half of 2016 saw a decline in short term performance predominantly due to rising bond yields in the United States which caused downward pressure on gold prices as well as other stock specific factors within the various portfolios. Poor performance in December was not uncommon across the sector, particularly for those managers without exposure to cyclical stocks. In contrast, Hunter Hall's January 2017 month to date performance has been strong with overall gains across the funds.

Hunter Hall applies a variety of responsible investment policies across different funds, primarily through their negative screening policy. This policy is used to screen out stocks that are considered to be harmful to people, destructive to the environment or cruel to animals. In addition, the Global Deep Green Trust, employs a positive screening process, whereby investments are identified based on their ability to positively contribute to society and the environment. In addition to their responsible investment policies, Hunter Hall also donates 5% of pre-tax profits to charities or charitable purposes through its charitable giving program.

4.2 History

A brief history of Hunter Hall is set out in the table below:

Year	Event
1993	Founded by Peter Hall.
1994	Hunter Hall Value Growth Trust ("VGT") was established.
2001	Hunter Hall Global Equities Trust ("GET") and Hunter Hall Australian Value Trust ("AVT") were established and Hunter Hall was listed on the ASX
2004	HHV was listed on the ASX and Hunter Hall Investment Management Limited ("HHIML"), a subsidiary of Hunter Hall, was appointed as the investment manager for HHV.
2007	Hunter Hall Global Deep Green Trust ("GDG") was established.
2014	Hunter Hall High Conviction Equities Trust ("HCT") was established.
2016	Peter Hall resigned as Chief Investment Officer and sold a 19.9% stake in Hunter Hall to WHSP. WHSP subsequently announced a takeover offer for the remaining 80.01% of shares in Hunter Hall.

Source: Hunter Hall

4.3 Funds

Hunter Hall manages the following funds:

Table 4: Summary of funds managed by Hunter Hall

Fund	Region	Established	FUM (\$'m)	Benchmark	Mgmt fee	Perf. fee
VGT	Global	May 1994	486.8	All Ords	1.64%	15%
GET	Global	Nov 2001	93.1	MSCI World	1.50%	15%
AVT	Australia	Nov 2001	33.3	Small Ords	1.00%	15%
GDG	Global	Oct 2007	5.2	MSCI World	1.64%	15%
HHV	Global	Mar 2004	308.2	MSCI World	1.50%	15%
HCT	Global	Dec 2014	42.9	Cash + 3%	1.80%	15%

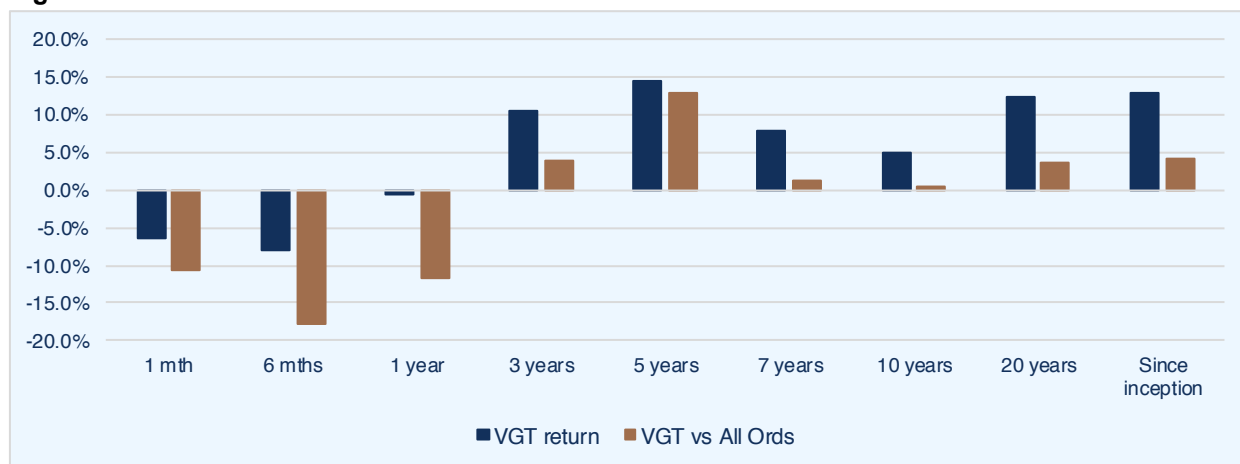
Source: Hunter Hall

All funds managed by Hunter Hall are ethically screened and adopt a value approach to investment. Further information in respect of each of the funds managed by Hunter Hall is provided below:

Hunter Hall Value Growth Trust ("VGT")

Established on 2 May 1994, the VGT is invested in an ethically screened portfolio of global equities. The objective of the VGT is to substantially outperform global stock markets, benchmarked by the MSCI World Total Return Index, Net Dividends Reinvested, in Australian Dollars ("**MSCI World Index**"), over the medium to long term without incurring significant risk to capital. The VGT has a minimum initial investment of \$5,000 and a management fee of 1.64% per annum (inclusive of GST). Performance fees are based on outperformance of the Australian All Ordinaries Accumulation Index ("**All Ords**") rather than the MSCI World Index as this was the benchmark established upon inception of the fund. However, Hunter Hall believes that due to the VGT's stock composition and its international focus, it would be more appropriate for the investment objective and portfolio performance to be measured against the MSCI World Index. Performance fees of 15% of any return greater than the All Ords are payable half yearly. The historical performance of the VGT as at 31 December 2016 is set out in the figure below.

Figure 1: VGT historical returns



Source: Hunter Hall

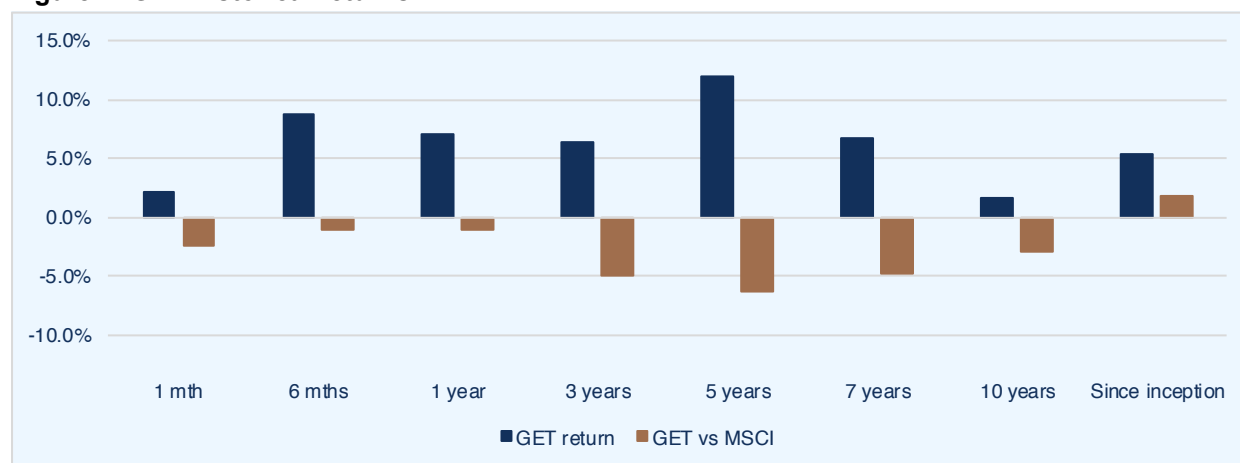
As at 31 December 2016, VGT had \$486.8 million of FUM. As at 30 November 2016 (latest information available), approximately 22% was derived directly from individual investors and 13% from clients of Commonwealth Securities Limited ("**ComSec**"). The remaining FUM is derived from over 500 dealer groups with no individual dealer group representing more than 5% of total FUM.

The current VGT investment team is led James McDonald, Hunter Hall's interim Chief Investment Officer. The VGT investment team is managed under a federation/multi-portfolio manager structure where portfolio managers are responsible for managing individual portfolio sleeves in which they deploy their best stock ideas. These portfolio sleeves are then aggregated to establish VGT's final portfolio. Portfolio managers carry direct authority and full accountability for their individual portfolio sleeves. Peter Hall and James McDonald have, on average, each managed 28% and 25% respectively of the VGT since the federation/multi-portfolio manager structure was introduced in 2005. Since Mr Hall's retirement, Mr McDonald has taken overall responsibility for the VGT and Mr's Hall's portfolio sleeve has been re-allocated among the other five VGT portfolio managers. The overall VGT investment team comprises eight experienced investment professionals with an average of 14.5 years' experience in the industry and an average of 7.5 years' tenure at Hunter Hall.

Global Equities Trust ("GET")

Established on 29 November 2001, the GET is invested in an ethically screened portfolio of global equities (excluding Australia and New Zealand) with a bias towards small to mid-sized companies. The objective of the GET is to substantially outperform global stock markets, benchmarked by the MSCI World Index, over the medium to long term without incurring significant risk to capital. The GET has a minimum initial investment of \$5,000 and a management fee of 1.5% per annum (inclusive of GST). A performance fee of 15% of any return greater than the MSCI World Index is payable half yearly. The historical performance of the GET as at 31 December 2016 is set out in the figure below:

Figure 2: GET historical returns



Source: Hunter Hall

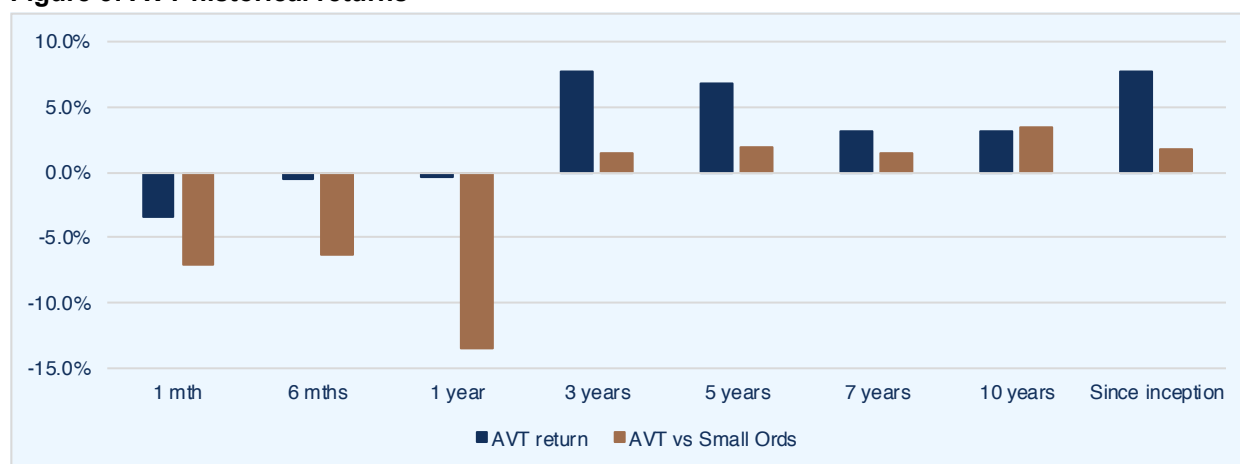
As at 31 December 2016, GET had \$93.1 million of FUM. As at 30 November 2016 (latest information available), approximately 18% was derived directly from individual investors. The remaining FUM is derived from over 300 dealer groups. There are no dealer groups which represent more than 5% of total FUM.

The GET investment team is led by James McDonald, who has been the GET fund manager since 2013. James is supported in the management of the portfolio by Jonathon Rabinovitz, Li Zhang, Yizhong Chan, Arden Jennings, Time Blake, Andrew Marvell and Alex Weibin Ge. James continues to manage the GET in line with its investment objectives and philosophy, including the ethical investment policy. The GET investment team has an average of 14.5 years' experience in the industry and an average of more than 7.5 years' tenure at Hunter Hall.

Australian Value Trust ("AVT")

Established on 29 November 2001, the AVT is principally invested in an ethically screened portfolio of Australian small capitalisation equities. The objective of the AVT is to substantially outperform the S&P / ASX Small Ordinaries Accumulation Index ("Small Ords") over the medium to long term without incurring significant risk to capital. The AVT has a minimum initial investment of \$5,000 and a management fee of 1% per annum (inclusive of GST). A performance fee of 15% of any return greater than the Small Ords plus 1% is payable half yearly. The historical performance of the AVT as at 31 December 2016 is set out in the figure below:

Figure 3: AVT historical returns



Source: Hunter Hall

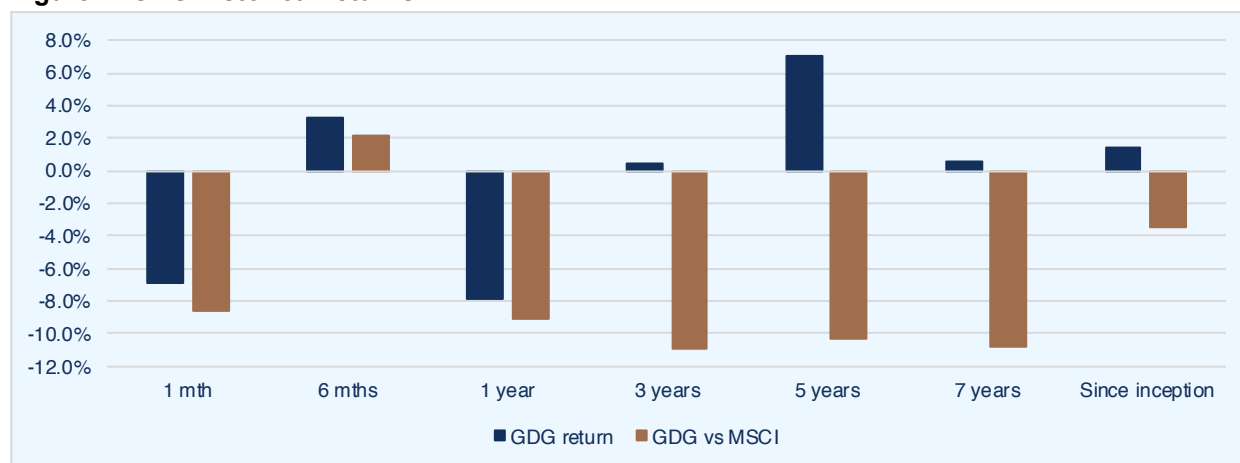
As at 31 December 2016, AVT had \$33.3 million of FUM. As at 30 November 2016 (latest information available), approximately 15% was derived directly from individual investors. The remaining FUM is derived from over 250 dealer groups. Three dealer groups each contribute more than 5% of total FUM with a combined total FUM contribution of \$6.59 million.

The AVT investment team is led by Jonathan Rabinovitz who has had direct responsibility for this fund since 2013. Jonathon is the Hunter Hall Deputy Chief Investment Officer and his considerable experience in the Australian equities market has been gained over 31 years. Jonathan is supported in the management of the AVT portfolio by James McDonald, Arden Jennings, Li Zhang, Yizhong Chan, Time Blake, Andrew Marvell and Alex Weibin Ge. The AVT investment team has an average of 14.5 years' experience in the industry and an average of more than 7.5 years' tenure at Hunter Hall.

Global Deep Green Trust ("GDG")

Established on 31 October 2007, the GDG is invested in an ethically-screened portfolio of global equities with a specific focus on enterprises which are considered to make a positive impact on the wellbeing of humans, animals and the environment. The objective of the GDG is to substantially outperform global stock markets, benchmarked by the MSCI World Index, over the long term. The GDG has a minimum investment of \$5,000 and a management fee of 1.64% per annum (inclusive of GST). A performance fee of 15% of any return greater than the MSCI World Index is payable half yearly. The historical performance of the GET as at 31 December 2016 is set out in the figure below:

Figure 4: GDG historical returns



Source: Hunter Hall

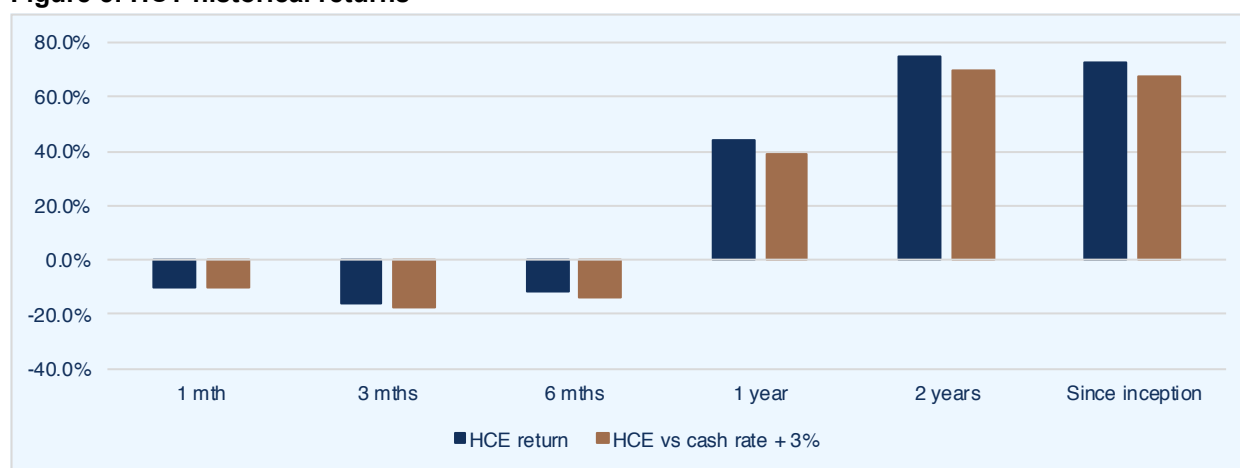
As at 31 December 2016, GDG had \$5.2 million of FUM. As at 30 November 2016 (latest information available), approximately 26% was derived directly from individual investors. The remaining FUM is derived approximately 44 dealer groups. There are three significant dealer groups which combined contributed 31% or \$2.62 million of total FUM.

The GDG investment team was led by former Chief Investment Officer Peter Hall prior to his resignation on 27 December 2016. Going forward the investment team will be led by James McDonald, the Interim Chief Investment Officer. As the former Deputy Chief Investment Officer, James has worked with Peter in relation to key decisions relating to the GDG including in respect of asset mix, capital allocation, team management and team selection since 2011. James will continue to work with the existing GDG investment team which includes Jonathan Rabinovitz, Li Zhang, Yizhong Chan, Arden Jennings, Tim Blake, Andrew Marvell and Alex Weibin Ge. The GDG investment team has an average of 14.5 years' experience in the industry and an average of more than 7.5 years' tenure at Hunter Hall.

High Conviction Equities Trust ("HCT")

Established on 11 December 2014, the HCT is a higher risk fund that holds a highly concentrated portfolio of typically no more than 20 stocks although a single stock could make up the majority of the portfolio. A majority of the portfolio may be made up of small, illiquid companies that may result in the loss of some or all of the capital invested. The HCT has a minimum investment of \$5,000 and a management fee of 1.8% (including GST). A performance fee of 15% of any return greater than the RBA's Cash Rate target plus 3% is payable half yearly. The historical performance of the HCT as at 31 December 2016 is set out in the figure below:

Figure 5: HCT historical returns



Source: Hunter Hall

As at 31 December 2016, HCT had \$42.9 million of FUM. As at 30 November 2016 (latest information available), approximately 73% of FUM was derived directly from individual investors and 8% was derived from investors trading through ComSec. The remaining FUM is derived from approximately 40 dealer groups. There is one dealer group that contributed approximately 10% or \$4.27 million of total FUM.

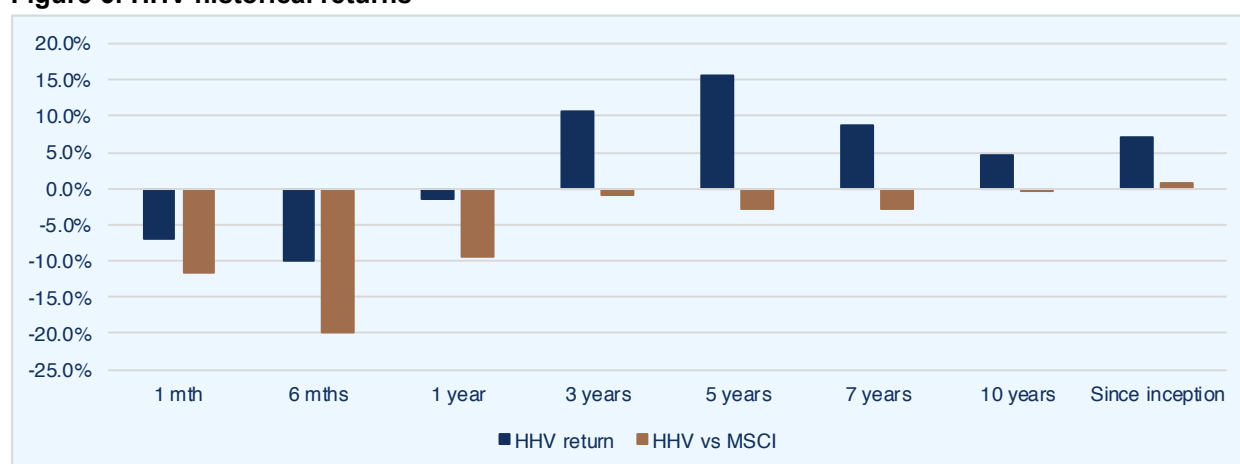
The HCT investment team was led by former Chief Investment Officer Peter Hall prior to his resignation on 27 December 2016. Going forward the investment team will be led by James McDonald, the Interim Chief Investment Officer. Jonathan will continue to work with the existing HCT investment team of Jonathan Rabinovitz, Li Zhang, Yizhong Chan, Arden Jennings, Tim Blake, Andrew Marvell and Alex Weibin Ge. The HCT investment team has an average of 14.5 years' experience in the industry and an average of more than 7.5 years' tenure at Hunter Hall.

Hunter Hall Global Value Limited ("HHV")

Hunter Hall, through its subsidiary HHIML is the investment manager for HHV, a listed investment company that has traded on the ASX since 19 March 2004. HHV is managed by Hunter Hall under a 25 year investment management agreement.

HHV gives investors easy access to a diversified portfolio of 40 to 60 global equities, including strategic allocation to Australian equities, with a small to mid-cap bias. Hunter Hall is paid an annual fee of 1.5% of the gross portfolio value and is eligible for a performance fee of 15% of any outperformance, after fees, of the MSCI World Index. The historical performance of HHV as at 31 December 2016 is set out in the figure below:

Figure 6: HHV historical returns



Source: Hunter Hall

As at 25 January 2017, the top ten shareholders in HHV accounted for approximately 21% of total shares on issue. Of this, the largest shareholder, Wilson Asset Management ("**WAM**"), held approximately 28 million shares (11.5%). WAM has been increasing its shareholding in January 2017. The HHV share price has declined slightly since the announcement of Mr Hall's resignation from \$1.235 on 30 December 2016 to \$1.218 on 23 January 2017. HHV has historically traded at a discount to net tangible assets ("**NTA**") although this gap has been narrowing recently. As at 23 January 2017, HHV's discount to pre-tax NTA was 2.9%. By comparison the discount was 6.7% at 30 June 2016 and the average over the prior three years was 11.6%.

The HHV investment team is led by James McDonald, who has been the HHV fund manager since 2015. James will maintain leadership of the HHV investment team and will continue to be supported in the management of the portfolio by Jonathan Rabinovitz, Li Zhang, Yizhong Chan, Arden Jennings, Tim Blake, Andrew Marvell and Alex Weibin Ge. The HHV investment team has an average of 14.5 years' experience in the industry and an average of more than 7.5 years' tenure at Hunter Hall.

HHV's largest shareholder, WAM, has recently proposed that HHV should conduct a share buyback program. On 24 January 2017, the board of HHV issued a response to the WAM buyback proposal which stated that the board did not believe such a proposal was in the best interest of all shareholders and as such did not intend to put the proposal to a shareholder vote. On this basis, the likelihood of a share buy-back proceeding in the near future appears remote as it would likely require the replacement of the existing board with a board in favour of putting the buyback proposal to a shareholder vote.

We are unable to disclose the content of the IMA due to confidentiality considerations. However, we have reviewed the IMA and note that there are limited circumstances under which the IMA can be terminated prior to its expiry in 2029 and we are not aware of any current events that could result in the possible early termination of the IMA. In addition, we consider that it is unlikely that any of the termination events would occur during the remaining life of the IMA.

4.4 Key personnel

The investment team is comprised of:

Name and title	Experience
James McDonald Interim Chief Investment Officer & Senior Portfolio Manager	James relocated to Sydney in 2014 from Hunter Hall's research office in London where he had been based since 2003. His main investment focus is on the European, American and Japanese markets. James had been Deputy Chief Investment Officer of Hunter Hall since 2011 and in that role he contributed to asset mix, capital allocation, team management and team selection decisions. James has 19 years of industry experience including six years at BT Funds Management in the positions of Japanese electronics analyst and US telecoms, telecoms equipment and data networking analyst.
Jonathan Rabinovitz Deputy Chief Investment Officer & Senior Portfolio Manager	Jonathan has 31 years' experience in the securities industry. He started his career as an equities analyst at Pembroke Securities Limited followed by analyst roles at Jardine Fleming Australia Securities Limited, UBS Warburg Limited, Credit Suisse First Boston Limited and Shaw Stockbroking Limited. Mr Rabinovitz initially joined Hunter Hall in 2004 as a portfolio manager and later as group portfolio manager. He left to join Thorney Investments as an investment manager in 2009 and returned to Hunter Hall in June 2012.
Li Zhang Portfolio Manager	Li Zhang has been with Hunter Hall since 2010 and has 16 years of industry experience. He is a Portfolio Manager with a focus on international equities. Li previously worked for Smartec Capital as Investment Manager and was assistant engineer in a semiconductor devices company in Shanghai.
Yizhong Chan Portfolio Manager	Yizhong Chan has nine years of industry experience and is a portfolio manager with a focus on international equities. Yizhong's prior experience includes investment analyst, data analytics for ratings agencies and research houses, performance analysis and investor relations.
Arden Jennings Portfolio Manager	Arden has been with Hunter Hall for five years in various roles and joined the investment team two years ago, as the equity analyst for the AVT. His previous experience with Hunter Hall includes responsibility for investor relations, assisting with the servicing of ratings agencies and research houses as well as trade settlements. He also worked with the former HHV Chairman to engage with brokers and shareholders.
Tim Blake Investment Analyst	Tim has over 15 years' experience in the funds management industry and joined Hunter Hall in 2014. Tim previously worked at Five Oceans Asset Management, Macquarie Group, Man Investments and Goldman Sachs Asset Management. Tim's area of expertise is the global consumer and industrial sectors.
Alex Weibin Ge Investment Analyst, Dealer	Alex joined Hunter Hall in January 2013. He supports the investment team with stock analysis and dealing. Alex has 11 years' experience in the Australian financial services sector including four years as a research analyst with BBY Limited and three years as an equity research analyst with Bandini Investment Holdings.
Andrew Marvell Investment Analyst, Dealer	Andrew Marvell has worked at Hunter Hall since 2006 and has been based in Hunter Hall's research office in London for more than five years. Andrew supports the team with stock analysis and also assists with international and Australian equities and currency dealing. Andrew was previously a Portfolio Administrator with particular responsibilities in unit pricing, performance analysis and written communication.

Source: Hunter Hall

The investment team's remuneration is a mix of fixed remuneration, performance based incentives and tenure based incentives. The objective of fixed remuneration is to provide a base level of remuneration that is appropriate to the executive's responsibilities, experience, role and competitive standing in the market and it is assessed annually with reference to available market data. The investment teams' performance based incentives link the individual's performance to the benchmark associated with the respective Fund and reward the team with cash based incentives. Finally, tenure based incentives have been designed to align the long-term interests of investors with the investment team by introducing retention measures for all investment team members.

As at 31 December there was an overall net cash weighting of 25% or \$240m. Out of the remaining \$730m, which was invested in equities, Peter Hall managed 42%, James McDonald 28%, Jonathan Rabinovitz 11% and the remaining 19% split across 3 additional portfolio managers. The experienced investment management team that was working with Peter on his funds remains in place and thus Peter's departure is expected to have limited impact on the performance of Hunter Hall's major funds.

The current senior management team of Hunter Hall (excluding investment team) comprises:

Table 5: Hunter Hall senior management team

Name and title	Experience
Paula Ferrao CFO and Interim CEO	Paula has 19 years' experience in the funds management industry, having been with hunter Hall since 1998. Most recently Paula has been Deputy CEO and has experience in financial reporting and tax for listed corporate entities, managed investment schemes and public offer superannuation funds in all aspects of fund operations. Paula also has experience with IPO's and international experience in financial reporting and tax for financial service licensees in the United Kingdom and Singapore.
Anthony Rule Head of Finance and Operations	Anthony joined Hunter Hall in July 2016 and has 14 years' experience in funds management, holding finance and operations positions in both the listed and unlisted space including at CBA and Centuria Capital. Anthony is a member of CPA Australia.
Asher Lockhart Head of Product and Risk	Asher has been with Hunter Hall for over eight years and over this time has had responsibility for fund administration, custody, investor relations and technology functions. As a member of the executive team, with broad operational and business responsibilities, Asher has contributed to improvements and efficiencies across the business. Prior to joining Hunter Hall, Asher had over ten years' experience in technology, project management and management consulting across a range of industries including financial services, professional services and fast moving consumer goods with organisations ranging from start-ups to large multi-nationals.
Monica Hood Senior Business Development Manager	Monica is a marketing and business development professional with a proven track record in retail funds management and wholesale back office services. Monica focusses on servicing the needs of research houses, financial planning firms, masterfund/wrap providers, asset consultants and superannuation funds. Monica joined Hunter Hall in 2001 and since this time her achievements have included increasing distribution channels, establishing branding and positioning, building FUM, targeting advisor program and key account management. Monica has 26 years' experience in the finance industry working for a variety of companies including Austraclear, State Street Australia and Permanent Trustee Company.

Source: Hunter Hall

The Board of Directors of Hunter Hall comprises:

Table 6: Directors of Hunter Hall

Directors	Experience
<p>Kevin Eley Chairman</p>	<p>Mr Eley is a Chartered Accountant, a Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors. Mr Eley has over 31 years' experience in management, financing and investment and has worked for a major international accounting firm, two investment banks and was CEO of HGL Limited where he remains as a non-executive director. Other current non-executive directorships include Milton Corporation Limited and Equity Trustees Holdings Limited.</p>
<p>Wayne Hawkins Non-executive director</p>	<p>Mr Hawkins has over four decades' experience in investment management. Previously he was funds manager and investment analyst with City Mutual Life Assurance Society Limited, group investment manager with New Zealand South British Insurance, chief executive of NZI Investment Services Limited, chief investment officer and managing director (Funds Management) with Oceanic Capital Corporation Group.</p>
<p>David Groves Non-executive director</p>	<p>Mr Groves has 25 years' experience as a company director, including 15 years in financial services. Mr Groves' is a director of Pipers Brook Vineyard Pty Ltd and Tasman Sea Salt Pty Ltd. Mr Groves' is a former director of Equity Trustees Ltd, Tassall Group Ltd, GrainCorp Ltd and Camelot Resources N.L. and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. Mr Groves is a member of the Chartered Accountants Australia and New Zealand and a Fellow of the Australian Institute of Company Directors.</p>
<p>Peter Hall Non-executive director</p>	<p>Mr Hall is the founder of Hunter Hall and a Trustee of the Hunter Hall International Limited Charitable Trust. Mr Hall has 33 years' experience in investment market and announced his retirement from the positions of Chief Investment Officer and CEO of Hunter Hall on 30 December 2016. Previously he was investment manager of Hancock and Gore Limited, portfolio manager and analyst with Mercantile Mutual Holdings Limited, industrial analyst with Pembroke Securities Limited, investment analyst with New Zealand South British Insurance Limited and a journalist with John Fairfax & Sons Limited. Mr Hall was awarded Member of the Order of Australia in 2010 for his philanthropic contributions to society and his service to the finance management industry.</p>

Source: Hunter Hall

4.5 Financial performance

From time to time, Hunter Hall will seed new funds. By virtue of the timing of these investments, Hunter Hall is often deemed to initially hold a controlling stake in the seeded funds and is therefore required to consolidate the funds' results in its annual report. For the purposes of our analysis we have removed the effect of the any seeded fund consolidation in the audited statements of financial performance for the three years ended 30 June 2014, 2015 and 2016 set out in the table below.

Table 7: Hunter Hall's financial performance

	FY14	FY15	FY16
Revenue			
Management fee income	16,032	15,909	16,621
Entry fee income	7	(0)	0
Performance fee income	-	298	1,782
Total revenue	16,040	16,207	18,403
Other income			
Realised gains on investments	77	-	1,503
Other income	(112)	188	1,934
Total other income	(35)	188	3,437
Total income	16,005	16,395	21,840
Expenses			
Staff costs	(6,223)	(5,975)	(5,816)
Incentives	(681)	(1,444)	(1,513)
Occupancy costs	(1,177)	(581)	(546)
Marketing	(707)	(537)	(743)
Corporate	(446)	(501)	(482)
Office	(268)	(220)	(228)
Professional fees	(669)	(516)	(631)
Other	(38)	(37)	19
Charitable donations	(307)	(374)	(651)
Non-reimbursable trust expenses	(151)	(142)	(132)
Total expenses	(10,668)	(10,327)	(10,723)
EBITDA	5,337	6,068	11,117
Depreciation and amortisation	(130)	(170)	(179)
EBIT	5,207	5,897	10,938
Interest income	120	180	219
Net Profit before tax	5,327	6,078	11,157
Income tax expense	(1,680)	(1,890)	(3,334)
Net profit after tax	3,647	4,188	7,824
Movement in value of seeded funds	68	2,781	2,578
Statutory profit	3,715	6,969	10,402
Other financial information			
FUM	960	1,118	1,139
Operating profit from investment management	5,553	5,789	6,370
EBITDA margin	33%	37%	51%
EBIT margin	33%	36%	50%

Source: Hunter Hall

In relation to the historical financial performance of Hunter Hall set out above, we note the following:

- ◆ Management fees have been fairly stable over the three years which is consistent with relatively flat FUM
- ◆ Other income predominantly relates to dividends received from investments
- ◆ Employee benefits and performance fees paid to employees represent a large proportion of total expenses which is expected in an industry which requires a highly skilled and specialised workforce
- ◆ The increase in staff costs is predominantly due to performance linked incentive payments
- ◆ Occupancy costs declined in FY15 due to a reduction in rent for the Sydney and London offices and the closure of the Singapore office
- ◆ Hunter Hall donates a portion of operating profit to charities each year. Donations increased in FY16 as a result of an increase in operating profit

4.6 Financial position

As with the statements of financial performance, we have removed the effect of the seeded fund consolidation in the audited statements of financial position as at 30 June 2015 and 30 June 2016 and unaudited statement of financial position as at 31 December 2016 set out in the table below.

Table 8: Hunter Hall's financial position

	Jun-15	Jun-16	Dec-16
Current asset			
Cash and cash equivalents	12,734	12,040	10,867
Other current assets	3,005	4,731	2,116
Total current assets	15,740	16,771	12,983
Non-current assets			
Shares in HHV at market value	1,787	6,639	6,206
Units in HCT at market value	7,853	12,034	10,660
Units in Hunter Hall Australian Equities Fund	1,372	-	-
Other investments	23	23	23
Other non-current assets	1,485	1,314	1,032
Total non-current assets	12,520	20,010	17,921
Total assets	28,259	36,781	30,904
Current liabilities			
Employee benefits	(1,819)	(2,514)	(688)
Current tax liabilities	(984)	(1,511)	(259)
Provision for charitable donations	(315)	(340)	(398)
Other current liabilities	(987)	(1,015)	(825)
Total current liabilities	(4,105)	(5,380)	(2,171)
Non-current liabilities			
Employee benefits	(592)	(668)	(674)
Deferred tax liabilities	(965)	(2,465)	(1,892)
Total non-current liabilities	(1,558)	(3,133)	(2,566)
Total liabilities	(5,662)	(8,513)	(4,737)
Net assets	22,597	28,268	26,168

Source: Hunter Hall

In relation to the historical financial position of Hunter Hall set out above, we note the following:

- ◆ Other current assets predominantly relate to trade and other receivables, the majority of which are management fees which are paid monthly in arrears
- ◆ Hunter Hall carries investments in some of its funds, in particular HHV and HCT which are carried at market values on the respective balance dates.
- ◆ Other non-current assets include plant and equipment, deferred tax assets and intangible assets
- ◆ The reduction in current liabilities in December 2016 was due to a substantial level of employee benefits and taxation liabilities accrued at financial year end which were subsequently paid
- ◆ Other current liabilities primarily relate to trade and other payables
- ◆ Deferred tax liabilities primarily relate to unrealised gains on investments

4.7 Capital structure and shareholders

As at 30 January 2017 Hunter Hall had a total of 27.3 million ordinary shares on issue. There were no options, convertible notes or other potential shares. The following table sets out details of Hunter Hall's substantial shareholders as at that date:

Table 9: Hunter Hall's substantial shareholders

Shareholder	Shares held	% total shares
Hampshire Assets & Services Pty Ltd, Peter Hall and associates	6,567,617	24.05%
Washington H Soul Pattinson and Company Limited	5,434,653	19.90%
John Bridgeman Limited and associates	1,415,547	5.18%
Other shareholder	13,891,699	50.87%
Total	27,309,516	100.00%

Source: Hunter Hall and ASX announcements

4.8 Share price performance

The following chart shows the share market trading of Hunter Hall shares for the past two years:

Figure 7: Hunter Hall's share price performance



Source: FactSet

Note: actual volume traded on 3 January 2017 was 6,886,383 shares

In relation to the trading of Hunter Hall shares over the last two years we note the following:

- ◆ Shares are thinly traded with an average daily volume of approximately 15,000 shares prior to the announcement of Mr Hall's retirement and the Takeover Offer. The spike in share trading on 3 January 2017 predominantly relates to Mr Hall's initial sale of 5,434,653 shares to WHSP
- ◆ During 2015 the share price remained fairly stable between \$2.00 and \$2.50. Between January 2016 and September 2016 the share price gradually rose to reach a peak of \$4.66 on 8 September 2016. This was likely due to continued increases in FUM as well as positive FY16 performance which included the receipt of performance fees and significant unrealised gains on investments
- ◆ In the second quarter of FY17, short term returns on a number of funds declined sharply, as noted in Section 4.3 above, which had a negative impact on Hunter Hall's share price
- ◆ Upon the announcement of the resignation of Mr Hall and the takeover offer from WHSP the share price fell from \$3.10 on 31 December 2016 to \$2.50 on 3 January 2016. The share price continued to fall to a low of \$2.29 on 6 January 2016, although some losses have subsequently been regained with a closing share price of \$2.52 on 30 January 2017

5 VALUATION METHODOLOGY

5.1 Available valuation methodologies

To estimate the fair market value of Hunter Hall we have considered common market practice and the valuation methodologies recommended in RG111. There are a number of methods that can be used to value a business including:

- ◆ The discounted cash flow method
- ◆ The capitalisation of earnings method
- ◆ Asset based methods
- ◆ Analysis of share market trading
- ◆ Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied, at least as a secondary cross-check to a primary method. The choice of methods depends on factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

5.2 Selection of valuation methodology

In selecting an appropriate valuation methodology to value Hunter Hall we have considered the following factors:

- ◆ Hunter Hall is neither an asset based business nor an investment holding company. It is also considered to be a going concern, thus an asset approach is not appropriate
- ◆ There are a limited number of listed companies with businesses that are directly comparable to Hunter Hall. This limits the reliability of the capitalisation of earnings approach
- ◆ Hunter Hall has experienced a significant change in its business recently with the retirement of founder and Chief Investment Officer, Peter Hall. The potential impact of this change (in the form of potential loss in FUM and consequent impact on revenue and earnings) in the short to medium term can be best estimated using a discounted cash flow analysis

Accordingly, we are of the opinion that the most appropriate methodology to value Hunter Hall is the discounted cash flow method with a capitalisation of earnings and share market trading analysis as cross-checks.

6 VALUATION OF HUNTER HALL

6.1 Background

We have assessed the fair market value of Hunter Hall using the discounted cash flow method, with cross-checks by reference the capitalisation of earnings method and an analysis of recent share marketing trading in Hunter Hall shares. This assessment has been made on a control basis as WHSP is seeking to acquire control of Hunter Hall via the Takeover Offer.

6.2 Discounted cash flow

In order to determine the value of a Hunter Hall share on a control basis using the discounted cash flow method, we are required to consider the following:

- ◆ An analysis of projected cash flows
- ◆ The determination of an appropriate discount rate
- ◆ The determination of a terminal value beyond the projected cash flow period
- ◆ The value of any surplus assets
- ◆ The value of non-operating liabilities
- ◆ The level of surplus cash held

These are discussed below.

6.2.1 Projected cash flows

Hunter Hall's management have prepared a detailed financial forecast for the period FY17 to FY19. This forecast has been reviewed by the board of Hunter Hall. We have discussed the assumptions behind the forecast with Hunter Hall's management and considered the risks associated with achieving the forecast in order to assess the likelihood of the forecast being achieved. In particular, we have considered the following key drivers of the Hunter Hall business:

- ◆ Likely future FUM flows particularly in light of the recent resignation of Peter Hall and current performance of the funds
- ◆ Fund performance over the forecast period
- ◆ The terms of the IMA for HHV and the likelihood of these management rights being terminated or otherwise impacted prior to the expiry of the IMA in 2029

After considering the above, we have prepared a discounted cash flow analysis based on three different scenarios, a base case, a pessimistic case and an optimistic case. The base case is based on the forecast prepared by Hunter Hall's management and the key assumptions are set out below. The modifications to the base case assumptions applied to derive the low and high cases are summarised in sections 6.2.2 and 6.2.3 below.

Base Case Revenue

Hunter Hall generates revenue based on FUM multiplied by the relevant management fee for each fund. FUM is calculated based on the following:

	Opening FUM
<i>Plus</i>	Net FUM flows
<i>Less</i>	Distributions
<i>Plus</i>	Net performance growth
<i>Equals</i>	Closing FUM

In respect of management's FUM assumptions we note:

Table 10: FUM Assumptions

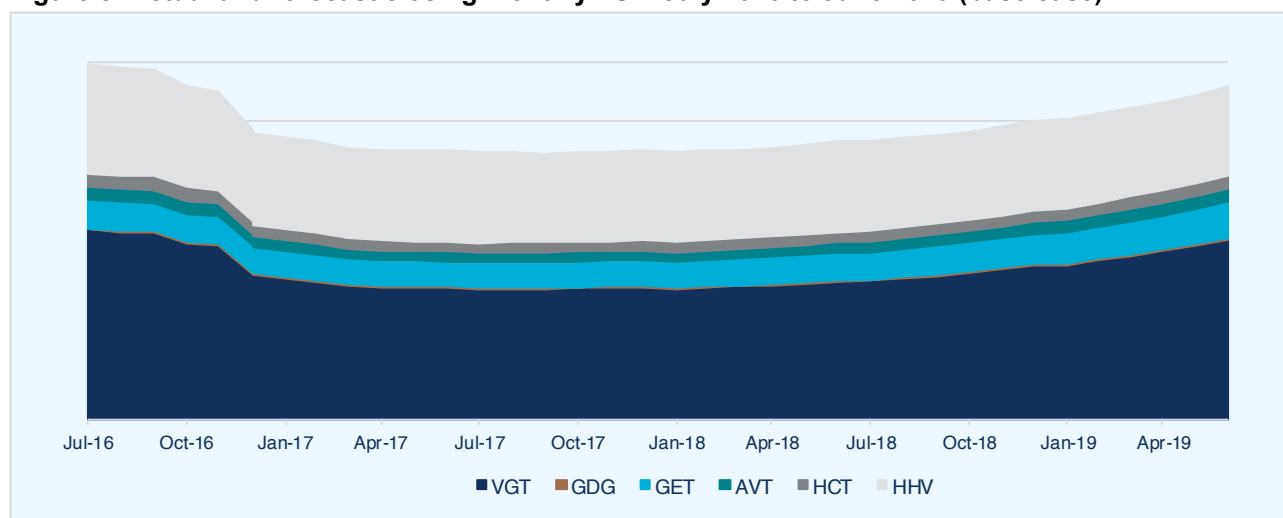
Assumption	Leadenhall comment
<p>Inflows / outflows</p> <p>There has been some loss in FUM since Peter Hall announced his resignation and intention to sell his shareholding in Hunter Hall to WHSP. Total FUM loss in January has been estimated based on actual FUM outflows for the period 30 December 2016 to 25 January 2017.</p> <p>Management have assumed that most investors who will be influenced by the departure of Peter Hall will act quickly in redeeming their investments. Thus, FUM outflows are forecast to peak in January 2017 and gradually move to a modest net monthly inflow position after 12 months.</p> <p>We have not presented the precise assumptions adopted due to the commercially sensitive nature of this information.</p>	<p>We do not consider the FUM assumptions adopted by Hunter Hall management to be unreasonable due to the following factors:</p> <ul style="list-style-type: none"> ◆ The experienced investment team remaining at Hunter Hall. The interim Chief Investment Officer, James McDonald has been working with Peter Hall as the Deputy Chief Investment Officer for a number of years and has a deep understanding of the funds managed by Hunter Hall and its investment philosophy. We understand that James is well known by investors and has been heavily involved in marketing and investor presentation activities in the past. This, along with the stability of the rest of the Hunter Hall investment team should provide some reassurance to investors regarding the future of Hunter Hall ◆ Most of the major ratings agencies had sell positions on Hunter Hall funds prior to the resignation of Peter Hall. As such it is unlikely that any subsequent downgrade would have a significant impact on the investment decisions of dealers with research coverage ◆ None of the funds have any significant individual or institutional investors that would result in a large drop in FUM if they withdrew their investment. Furthermore, the composition of FUM is primarily retail investors that tend to be more sticky relative to larger institutional investors <p>Overall management assumptions do not appear unreasonable. However, given the degree of subjectivity we have considered alternative scenarios in the optimistic and pessimistic scenarios as discussed below.</p>

Assumption	Leadenhall comment
<p>HHV</p> <p>The existing IMA with HHV has approximately 12 years remaining. Upon the expiration of the existing agreement a new agreement would need to be negotiated.</p> <p>Management have assumed that HHIML is retained as the investment manager of HHV and that there is no buy-back undertaken by HHV.</p>	<p>We do not consider the assumptions in respect of the IMA for HHV adopted by Hunter Hall management to be unreasonable due to the following factors:</p> <ul style="list-style-type: none"> ◆ We consider it reasonable to assume that HHIML is retained as the investment manager for HHV for the duration of the IMA due to the protection of HHIML's role afforded by the IMA ◆ Given the cost and uncertainty involved with appointing a new investment manager (in particular one with a similar investment strategy), and in the absence of any information to the contrary, under the base case we have also assumed the IMA is renewed at the end of its term on similar terms to the current arrangement. We have considered the implications of non-renewal in our pessimistic scenario ◆ While we understand WAM is agitating for an HHV share buy-back, the HHV board does not consider a buy-back to be in HHV shareholders' best interest as a whole. There are therefore a number of hurdles that would need to be overcome before WAM could force a buy-back. We therefore consider it reasonable not to include the impact of a buy-back in base case projections. We have analysed the impact of a potential buy-back in our pessimistic scenario as set out below.
<p>Fund performance</p> <p>Annualised performance of 2.5% is forecast across all funds for FY17, increasing to 5% thereafter.</p> <p>The long-term assumption of 5% per annum is based on Hunter Hall's long term average return on the largest two funds over the past ten years.</p> <p>The assumed performance is lower in FY17 due to relatively high cash weightings and the potential liquidation of the more illiquid positions across the portfolio.</p>	<p>We do not consider the assumptions in respect of fund performance to be unreasonable due to the following factors:</p> <ul style="list-style-type: none"> ◆ The long-term assumption of 5% per annum is consistent with the average return on the largest two funds over the past ten years ◆ Portfolio composition, in particular the relative high cash weighting at the moment, coupled with the existing low-interest rate environment will continue drag on returns in the short-term <p>We also note that once gains are realised, they are paid out as distributions, thus this assumption needs to be considered in conjunction with the distribution assumption discussed below. Thus, alternative assumptions for fund performance do not have a significant impact on the valuation conclusion.</p>

Assumption	Leadenhall comment
Distributions Distributions (dividends in the case of HHV) are paid twice annually and increase over the forecast period as performance improves.	<p>We do not consider the assumptions in respect of distributions to be unreasonable due to the following factors:</p> <ul style="list-style-type: none"> ◆ Distributions are projected to exceed market growth, thus overall reducing FUM before the impact of inflows. This is projected in the near term due to a level of unrealised gains in the portfolios managed by Hunter Hall and is therefore not unreasonable. ◆ In the longer term, this is a somewhat conservative assumption which we have considered further in our optimistic scenario described below.

The figure below sets out forecast closing monthly FUM under the base case, based on the assumptions described above.

Figure 8: Actual and forecast closing monthly FUM July 2016 to June 2019 (base case)



Source: Hunter Hall and Leadenhall analysis

To calculate revenue, the average FUM is multiplied by the management fee for each fund, net of non-rebateable GST. The management fee for each fund is set out in Table 4. We consider that, despite the potential for fee compression over the longer term, it is reasonable to assume flat management fees given Hunter Hall's specialist investment strategy and level of retail investment which is likely to result in less investor fee sensitivity.

No performance fees have been included in management's projections. We do not consider this to be unreasonable in light of the more recent performance of the funds and the limited track record in generating performance fees. However, this is a somewhat conservative approach; thus, we have considered the impact of including performance fees in our optimistic scenario set out below.

Operating expenses

In respect of the operating expense assumptions applied in the base case we note:

- ◆ FY17 operating expense assumptions are based on the second half of the Hunter Hall FY17 budget. FY17 expenses are largely in line with previous years
- ◆ Hunter Hall are in the process of closing their London office and expect that this will be complete by May 2017

- ◆ FY18 expenses are in line with FY17 after taking into account cost savings from the closure of the London office and 2.5% growth is assumed on the majority of expenses in FY19
- ◆ Staff incentives are linked to operating profit and are in line with agreed parameters
- ◆ Charitable donations have been forecast as a percentage of operating profit in line with historical actuals

Based on our review of the projected expenses and discussions with management nothing has to come to our attention to indicate the expense projections are not reasonable.

Capital expenditure

Hunter Hall is not a capital intensive business and therefore requires a low level of capital expenditure. We have assumed capital expenditure approximates depreciation.

Working Capital

Hunter Hall collects management fees on a monthly basis and has limited accounts payable. As such it operates with a negligible working capital balance. Therefore projected movements in working capital are insignificant.

Tax

We have applied tax at the Australian corporate tax rate of 30%.

Reasonableness of assumptions

While we have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information, we have undertaken a detailed review of the forecasts prepared by management and have discussed the key assumptions with management. Based on this analysis we consider these assumptions to be reasonable for the purposes of our analysis. In addition, due to the uncertainty inherent in some aspects of Hunter Hall's business we have also considered two additional scenarios which are summarised below.

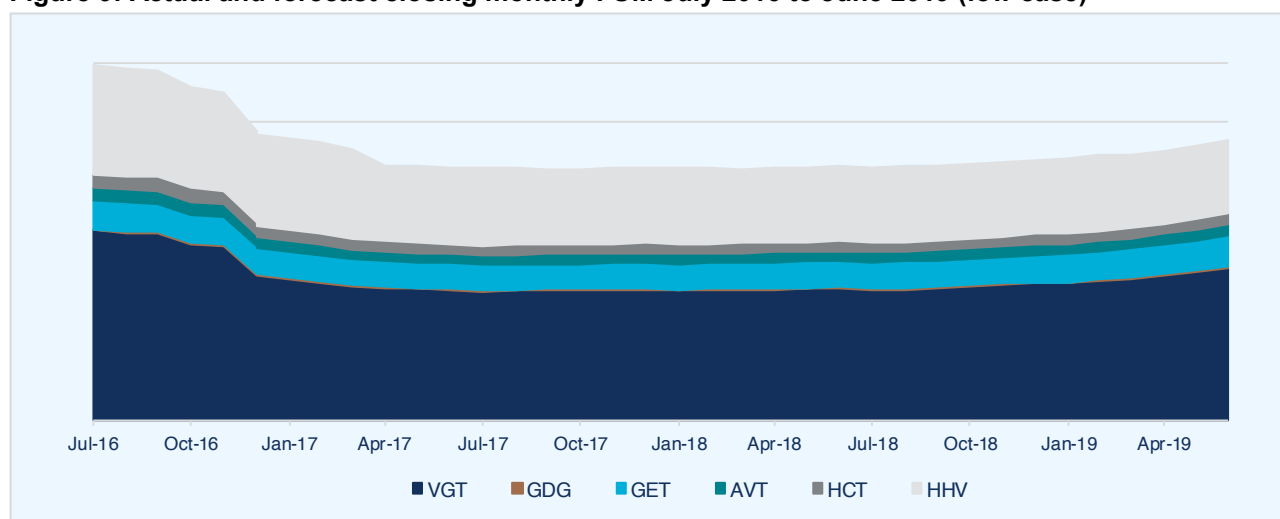
6.2.2 Low case

The key differences in assumptions between the low case and the base case are summarised below:

- ◆ FUM losses are forecast to continue over a longer period (i.e. 18 months compared to one year in the base case), resulting in lower closing FUM at the end of the forecast period
- ◆ HHV undertakes a buy-back with a 15% acceptance rate in April 2017 thereby reducing FUM by this amount
- ◆ The HHV IMA is not renewed upon its expiry in 12 years
- ◆ Expenses are unchanged except for performance related remuneration which is linked to operating profit
- ◆ In the year after the investment management agreement is forecast to be terminated, operating costs are reduced to 75% of the prior year to reflect costs associated with the management of HHV

After applying the above assumption, the closing monthly FUM under the low case is as set out in the figure below.

Figure 9: Actual and forecast closing monthly FUM July 2016 to June 2019 (low case)



Source: Leadenhall analysis

Note: the low case assumes that HHV FUM reduces to zero at the expiry of the current IMA in 2029

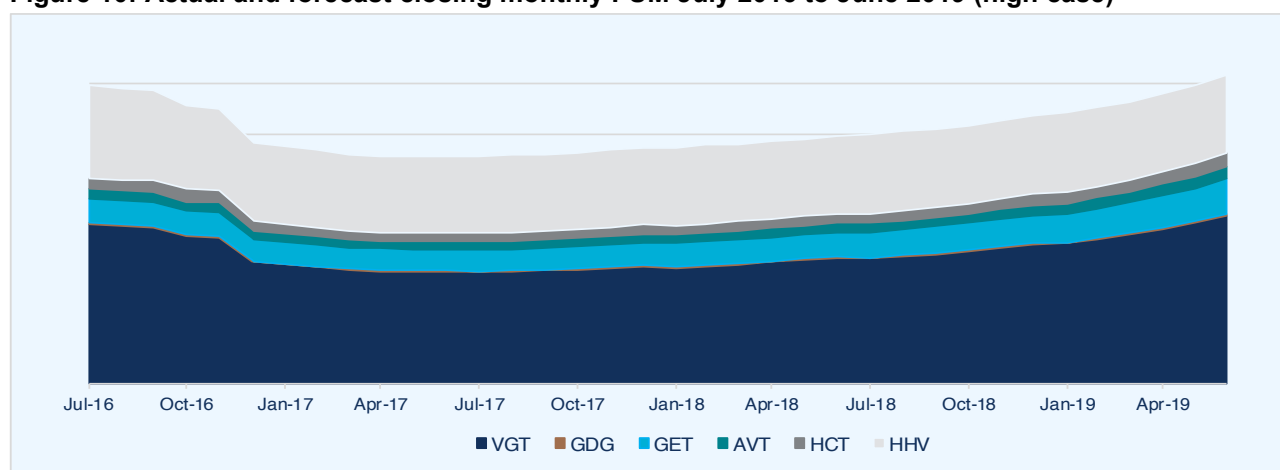
6.2.3 High Case

The key differences in assumptions between the high case and the base case are summarised below:

- ◆ FUM outflows occur over a shorter period and a net FUM inflow position is reached more quickly resulting in higher closing FUM at the end of the forecast period
- ◆ We have assumed annual performance 2.5% higher than the base case (i.e. 5% for year 1 and 7.5% thereafter)
- ◆ We have assumed the distributions are equal to the market increases, thus reducing the net FUM outflow to nil
- ◆ We have assumed that there is no buy-back in HHV and that the HHV investment management agreement is renewed indefinitely
- ◆ We have assumed average semi-annual performance fees of 0.1% of FUM based on an analysis of historical performance fees received
- ◆ Expenses are unchanged except for performance related remuneration which is linked to operating profit. In addition, 50% of performance fees are expected to be paid to staff as bonuses in line with existing policies

After applying the above assumption, the closing monthly FUM under the high case is set out in the figure below.

Figure 10: Actual and forecast closing monthly FUM July 2016 to June 2019 (high case)



Source: Leadenhall analysis

6.2.4 Discount rate

We have applied a discount rate of between 11.5% and 12.5% (nominal, post-tax, WACC) to the projected cash flows. We calculated the discount using the capital asset pricing model based on the assumptions set out in Appendix 3.

6.2.5 Terminal value

The terminal value represents the value of the cash flows beyond the forecast period. Terminal values are commonly calculated based on the expected long-term growth rate of future cash flows. We have used a terminal growth rate of 3.0% which we consider is a reasonable estimate of long term growth in FUM after considering industry prospects, in particular in relation to superannuation and greater social awareness of investors, and the impact of distribution of capital gains.

6.2.6 Surplus Assets

Surplus assets are assets owned by an entity that are not required to generate the earnings of its business. This could be investments, unused plant and equipment held for resale, or any other asset that is not required to run the operating business. It is necessary to ensure that any income from surplus assets (e.g. rent / dividends) is excluded from the business value.

We have identified the following surplus assets owned by Hunter Hall.

Table 11: Surplus assets

Surplus Asset	\$'000
Investment in HCT	11,722
Investment in HHV	6,075
Units in managed funds	23
Total surplus assets	17,820

Source: Hunter Hall and Leadenhall analysis

A brief summary of each of the identified surplus assets is provided below.

Investment in HCT

As at 24 January 2017, Hunter Hall held 4,017,502 units in HCT and the redemption price on this date (latest available) was \$2.9178, resulting in a current market value of \$11.7 million.

Investment in HHV

As at 31 January 2017, Hunter Hall held 5,062,134 shares in HHV and the closing price on this date was \$1.20, resulting in a current market value of \$6.1 million.

Units in managed Funds

Hunter Hall holds units in a small number of other managed funds. The value of this investment is recorded at cost given its relatively small value. Management have advised that any unrealised gains on this investment would be immaterial and as such we have included these investments at cost in our analysis.

6.2.7 Non-operating liabilities

Non-operating liabilities are liabilities that are not related to the ongoing business operations, although they may relate to previous business activities, for example legal claims against the entity.

Hunter Hall is expected to incur extraordinary expenses in the range of \$2.0 million to \$2.5 million in relation to Mr Hall's resignation and the subsequent takeover offer from WHSP. For the purposes of our analysis we have included the mid-point of this range, \$2.25 million, as a non-operating liability.

6.2.8 Surplus cash

As at 31 December 2016, Hunter Hall had a cash balance of \$10.9 million and no borrowings. Management have advised that there has been no material change in the cash balance since 31 December 2016.

6.2.9 Discounted cash flow summary

Based on the preceding analysis, the assessed value under each scenario is as set out in the table below.

Table 12: Discounted cash flow summary (\$'000)

Description	Low Case		Base Case		High Case	
	Low	High	Low	High	Low	High
Present value of projected cash flows	22,897	24,058	30,384	31,966	41,241	43,405
Terminal value	6,862	8,613	13,763	17,275	18,838	23,645
Surplus assets	17,820	17,820	17,820	17,820	17,820	17,820
Non-operating liabilities	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)	(2,250)
Net cash	10,867	10,867	10,867	10,867	10,867	10,867
Equity value on a control basis	56,195	59,108	70,583	75,678	86,515	93,487
Number of share on issue	27,310	27,310	27,310	27,310	27,310	27,310
Equity value per share (\$)	2.06	2.16	2.58	2.77	3.17	3.42

Source: Leadenhall analysis

6.2.10 Discounted cash flow conclusion

Based on the analysis above, we have assessed the value of a Hunter Hall share to be in the range of \$2.75 to \$3.20. In selecting this range, we have considered:

- ◆ The possibility of performance fees being paid in the future, as Hunter Hall has some track record in realising performance fees. This is reflected in the high case, but not the base case or low case
- ◆ The degree of conservatism in the base assumptions in relation to projected distributions, which is removed in the high case
- ◆ The potential to lose the management rights for HHV in the future due to the termination or non-renewal of the agreement or the potential for a buy-back or other corporate action which may reduce the assets managed or the life of the fund. However, this risk is somewhat mitigated by the strong legal protection afforded by the HHV IMA and the practical difficulties that would be faced by a third party seeking to force a buy-back by HHV
- ◆ The current uncertainty surrounding the business after the departure of Peter Hall which is reflected in the various scenarios considered
- ◆ None of the scenarios considered include any allowance for cost savings or other synergies that may be realised by a potential acquirer. A likely buyer of Hunter Hall (including both WHSP and Pinnacle) would be able to realise cost savings from acquiring the business

As a result of these considerations, we consider the high case to be somewhat more likely than the low case and have therefore selected a valuation range spanning the upper end of the base case to the lower end of the high case.

6.3 Capitalisation of earnings

As a cross-check of our valuation, we have conducted a capitalisation of future maintainable earnings analysis. To do so, we have calculated the EBITDA and EBIT multiples and the enterprise value as a percentage of FUM implied by our assessed valuation range and compared this to the same metrics of comparable listed companies. The metrics implied by our preferred valuation range are set out in the table below.

Table 13: Implied multiples

	Historical		Forecast	
	Low	High	Low	High
Implied EBITDA multiple	4.2x	5.3x	7.5x	9.5x
Implied EBITDA multiple (adjusted)	7.9x	10.0x	7.5x	9.5x
Implied EBIT multiple	4.2x	5.4x	7.8x	9.8x
Implied EBIT multiple (adjusted)	8.1x	10.3x	7.8x	9.8x
Implied PE multiple	9.6x	11.2x	n/a	n/a
Implied PE multiple (adjusted)	11.2x	14.2x	11.1x	14.0x
Implied % of FUM	4.8%	6.1%	n/a	n/a

Source: Leadenhall analysis

Notes:

1. The forecast multiple is based on actual earnings for the six months to December 2016 and forecast earnings for the six months from January 2017 to June 2017
2. The adjusted PE multiple is based on earning excluding distributions from investments or interest income and our assessed values excluding surplus assets and cash

The adjusted EBITDA and EBIT multiples exclude the impact of performance fees received, realised gains on investments and dividends received in FY16. As these amounts are not included in our forecasts, and may not be included in the earnings of comparable companies, the adjusted multiples provide a better basis for comparison.

To cross-check the assessed multiple, we have identified multiples implied by market trading prices of public companies with similar businesses to Hunter Hall, and compared these implied multiples to those calculated for Hunter Hall in the table above. It should be noted that the multiples set out below are based on market trading and consequently do not include the impact of a control premium.

Table 14: Comparable company market trading multiples

Company	Market Cap (\$'m)	EV/FUM (historical)	EBITDA multiple Historical	EBITDA multiple Forecast	EBIT multiple Historical	EBIT multiple Forecast	PE multiple Historical	PE multiple Forecast
Diversified								
Magellan Financial Group	3,778.3	7.4%	13.4x	13.9x	13.4x	13.9x	19.0x	19.9x
BT Investment Management	2,469.6	2.5%	10.6x	10.4x	11.2x	10.8x	17.4x	15.6x
Platinum Asset Management	2,927.5	11.4%	9.5x	10.8x	9.5x	10.7x	14.6x	16.5x
IOOF Holdings	2,719.3	2.5%	8.8x	11.0x	10.5x	12.1x	13.6x	16.7x
Perpetual	2,137.4	5.9%	9.5x	9.1x	10.4x	10.2x	16.2x	16.5x
Average		6.0%	10.3x	11.0x	11.0x	11.5x	16.2x	17.0x
Median		5.9%	9.5x	10.8x	10.5x	10.8x	16.2x	16.5x
Boutique and specialised								
HFA Holdings	366.5	2.6%	7.9x	7.3x	9.6x	7.4x	19.3x	12.9x
Fiducian Group	115.7	n/a	10.9x	9.2x	11.0x	10.3x	19.8x	15.6x
Australian Ethical Investors	95.7	4.4%	17.5x	n/a	18.2x	n/a	31.8x	n/a
K2 Asset Management	93.4	13.4%	15.4x	13.6x	15.5x	13.7x	24.5x	20.7x
Hunter Hall	68.5	6.2%	5.4x	n/a	5.5x	n/a	8.7x	n/a
Average		6.7%	11.4x	10.0x	12.0x	10.5x	20.8x	16.4x
Median		5.3%	10.9x	9.2x	11.0x	10.3x	19.8x	15.6x

Source: FactSet (as at 30 January 2017), ASX announcements and Leadenhall analysis

Note: We also considered Pacific Current group as a comparable company, however recent poor performance resulted in trading multiples that were not meaningful for the purposes of our analysis

The adjusted implied multiples and EV/FUM % are slightly lower than the adjusted average and median multiples observed for comparable companies. The forecast multiples for boutique and specialised managers are closer to the multiples implied by our analysis. The primary driver of this difference is the assumption of FUM outflows for Hunter Hall which is not reflected in the market multiples of comparable companies. This is to some extent offset by the implied control premium included in our valuation of Hunter Hall.

We have not identified any control transactions involving suitably comparable businesses for which there is sufficient publicly available information to calculate the relevant multiples for comparison purposes.

6.4 Analysis of share trading

Market trading in Hunter Hall shares since the announcement of Peter Hall's resignation provides an indication of the market's assessment of the current value of Hunter Hall on a minority basis. We have presented an analysis of recent trading in Hunter Hall's shares in Section 4.8 above. When assessing market trading it is necessary to consider whether the market is informed and liquid. In this regard we note:

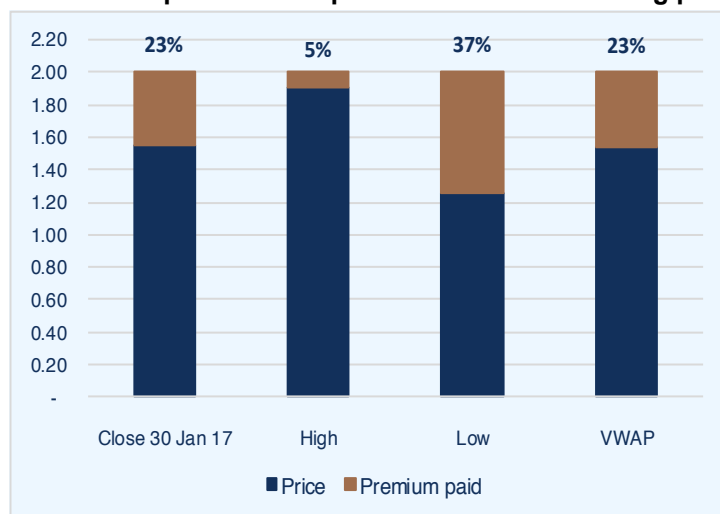
- ◆ Hunter Hall shares are fairly tightly held reducing the number of shares available for market trading. Daily values traded are often under \$50,000. This level is below the level at which large institutional investors may wish to trade and may be seen as a deterrent for other significant investors
- ◆ Hunter Hall has continuous disclosure obligations under the ASX Listing Rules, thus the market is reasonably well informed about its activities

As a result of these factors we consider the market trading to be reasonably well informed and moderately liquid. We have therefore undertaken only a high level analysis of share market trading, by assessing the level of control premium implied by our valuation range compared to Hunter Hall's share price since the announcement of Mr Hall's resignation. As our valuation analysis takes into account the impact of Mr Hall's resignation, in particular in relation to FUM outflows, we do not consider that it is appropriate to include an analysis of Hunter Hall's share price prior to the announcement of Peter Hall's resignation on 30 December 2017.

In addition, we have excluded the impact of Mr Hall's sale of a 19.9% stake to WHSP on 3 January 2017 from our analysis below.

The figure below sets out the control premium implied by the mid-point of our valuation range. In conducting this analysis we have removed the value of cash, surplus assets and net debt (\$0.97 per share) as these do not relate to the operating business and as such a purchaser is unlikely to pay a premium for these assets.

Table 15: Implied control premium to market trading prices



Hunter Hall's closing share price on 30 January 2017 was \$2.52. The volume weighted average price ("VWAP") over the period 4 January 2017 to 30 January 2017 was \$2.50. Over the same period the highest closing price was \$2.88 on 17 January 2017 and the lowest closing price was \$2.23 on 23 January 2017. After adjusting for the value of tangible assets, this results in an implied control premium over the mid-point of our assessed valuation range of between 5% on the highest observed price, 37% on the lowest observed price and 23% on the VWAP and 30 January 2017 closing price.

Source: FactSet and Leadenhall analysis

The generally observed range for control premiums is between 20% to 40%. In addition, the average control premium observed for transactions in the finance sector in Australia between 2005 and 2015 was 35%. Further information on observed control premiums is included in Appendix 5.

The control premium implied by our assessed value of a Hunter Hall share appears to be at the lower end of the generally observed range. However, we do not consider this to be unreasonable given the current uncertainty surrounding the business. Furthermore, since the announcement of the Takeover Offer, it is possible that the market was pricing in other potential takeover offers and therefore an element of the share price over this period may be attributed to a control premium.

6.5 Conclusion on value

Based on our discounted cash flow analysis and valuation cross-checks, we have selected a valuation range for a share in Hunter Hall of between \$2.75 and \$3.20, on a control basis.

7 EVALUATION

7.1 Fairness

We have assessed whether the Takeover Offer is fair by comparing our assessed fair market value of a Hunter Hall share on a control basis with the consideration offered. This comparison is set out in the table below.

Table 16: Assessment of fairness

	Low	High
Fair market value of a Hunter Hall share	\$2.75	\$3.20
Consideration	\$1.00	\$1.00

Source: Leadenhall analysis

Since the consideration offered is below our assessed range of values of a Hunter Hall share the Takeover Offer is not fair to Shareholders.

7.2 Reasonableness

We have defined the Takeover Offer as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. We have therefore considered the following advantages and disadvantages of the Takeover Offer to Shareholders.

7.2.1 Advantages

The Takeover Offer may offer some potential advantages for certain shareholders, for example:

- ◆ The lack of brokerage costs means that the Takeover Offer may provide an opportunity to sell a very small holding in Hunter Hall that would otherwise be uneconomic to sell due to transaction costs. However, greater proceeds could be realised from accepting the competing offer from Pinnacle or progressively by holding the shares and receiving dividends over time
- ◆ The Takeover Offer also provides an opportunity to sell large blocks for a fixed price. Typically, it is difficult to sell a large block of shares on the market without impacting the market price. However, the price at which a significant block could be sold on the market is likely to be higher (potentially significantly) than the price of the Takeover Offer. Thus, while the offer price is known it is lower than the offer price from Pinnacle and most likely considerably less than the price that could be realised for an on market sale of even a substantial block.

Having regard to the above factors we have not identified any significant advantages of the Takeover Offer relative to other alternatives currently available to Shareholders.

7.2.2 Disadvantages

Significant discount to market price

The Takeover Offer is at a significant discount (approximately 60%) to recent market trading in Hunter Hall shares. Shareholders who wish to sell could therefore realise a higher price by selling on the market than by accepting the Takeover Offer.

Limited value attributed to the Hunter Hall Business

Hunter Hall has investments in its funds, cash and other non-operating assets equivalent to \$0.97 per share. As a result, the offer price implicitly is only attributing \$0.03 per share or just \$0.8 million to the operating business of Hunter Hall.

Superior competing offer

On 23 January 2017 Pinnacle announced its intention to make a competing offer for Hunter Hall at a materially higher price of \$1.50 per share, increasing to \$2.00 per share if it reaches a 50% holding in Hunter Hall. On 30 January 2017, Pinnacle lodged a bidder's statement formalising their competing offer on the same terms as the original announcement. The Pinnacle offer presents all of the potential advantages discussed above in relation to the Takeover Offer at a higher price.

7.2.3 Conclusion on reasonableness

In evaluating the reasonableness of the Takeover Offer we note in particular that the price is considerably below the market trading price for Hunter Hall shares and that the advantages of the Takeover Offer are limited. Thus in our opinion the disadvantages outweigh the advantages. We have therefore concluded that the Takeover Offer is not reasonable.

7.3 Opinion

The Takeover Offer is neither fair nor reasonable to Shareholders.

APPENDIX 1: GLOSSARY

Term	Meaning
All Ords	Australian All Ordinaries Accumulation Index
AMP	AMP Limited
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
AUD	Australian Dollar
AVT	Hunter Hall Australian Value Trust
Bidders Statement	Bidders statement released by WHSP dated 11 January 2017
CAPM	Capital Asset Pricing Model
CBA	Commonwealth Bank of Australia Limited
CFS	Colonial First State
CFSGAM	Colonial First State Global Asset Management
ComSec	Commonwealth Securities Limited
Corporations Act	The Corporations Act 2001
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Fair market value	The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms' length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FUM	Funds under management
FY	Financial year
GDG	Hunter Hall Global Deep Green Trust
GET	Hunter Hall Global Equities Trust
HCT	Hunter Hall High Conviction Equities Trust
HHIML	Hunter Hall Investment Management Limited
HHV	Hunter Hall Global Value Limited
Hunter Hall	Hunter Hall International Limited
IMA	Investment Management Agreement
IPO	Initial public offering
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
MAM	Macquarie Asset Management
MSCI World Index	MSCI World Total Return Index
NPAT	Net profit after tax
PBT	Profit before tax
Pinnacle	Pinnacle Investment Management Group
RG111	Regulatory Guide 111: Content of Expert Reports
Section 640	Section 640 of the Corporations Act 2001
Shareholders	Hunter Hall Shareholders not associated with WHSP
Small Ords	S&P/ASX Small Ordinaries Accumulation Index
Takeover Offer	Offer from WHSP to acquire 100% of the shares in Hunter Hall for \$1.00 per share
Target's Statement	Target's statement to be issued by Hunter Hall
VGT	Hunter Hall Value Growth Trust
WACC	Weighted Average Cost of Capital
WAM	Wilson Asset Management
WHSP	Washington H Soul Pattinson & Company Limited

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- ◆ The discounted cash flow method
- ◆ The capitalisation of earnings method
- ◆ Asset based methods
- ◆ Analysis of share market trading
- ◆ Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- ◆ A forecast of expected future cash flows
- ◆ An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- ◆ Early stage companies or projects
- ◆ Limited life assets such as a mine or toll concession
- ◆ Companies where significant growth is expected in future cash flows
- ◆ Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- ◆ Reliable forecasts of cash flow are not available and cannot be determined
- ◆ There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- ◆ A level of future maintainable earnings
- ◆ An appropriate capitalisation rate or multiple.

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- ◆ There are no suitable listed company or transaction benchmarks for comparison
- ◆ The asset has a limited life
- ◆ Future earnings or cash flows are expected to be volatile
- ◆ There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- ◆ Orderly realisation
- ◆ Liquidation value
- ◆ Net assets on a going concern basis
- ◆ Replacement cost
- ◆ Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- ◆ An enterprise is loss making and is not expected to become profitable in the foreseeable future
- ◆ Assets are employed profitably but earn less than the cost of capital
- ◆ A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- ◆ It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- ◆ The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- ◆ A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

APPENDIX 3: DISCOUNT RATE

The selected discount rate applied in our DCF analysis for Hunter Hall has been determined using the weighted average cost of capital ("WACC"). We have estimated the cost of equity with the capital asset pricing model ("CAPM").

Post-tax cost of equity (K_e)

The CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk-free investments (such as government bonds). The cost of equity, K_e , is the rate of return that investors require to make an equity investment in a firm.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta \times (R_m - R_f) + \alpha$$

The components of the CAPM formula are:

Table 17: Components of CPAM

Input	Definition
K_e	The required post-tax return on equity
R_f	The risk-free rate of return
R_m	The expected return on the market portfolio
MRP	The market risk premium ($R_m - R_f$)
β	The beta, the systematic risk of a stock (this is an equity or levered beta)
α	The specific company risk premium

Each of the components in the above equation is discussed below.

Risk-free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically over a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. We have selected a risk-free rate of 2.76%, being the yield on 10 year Australian Government bonds as at 1 January 2017.

Equity market risk premium (MRP)

The MRP ($R_m - R_f$) represents the additional return that investors expect from an investment in a well-diversified portfolio of assets (such as a market index). It is the excess return above the risk-free rate that investors demand for their increased exposure to risk, when investing in equity securities.

Leadenhall undertakes a review of the MRP at least every six months, taking account of market trading levels and industry practice at the time. Based on this research, we have adopted an MRP of 6.5%.

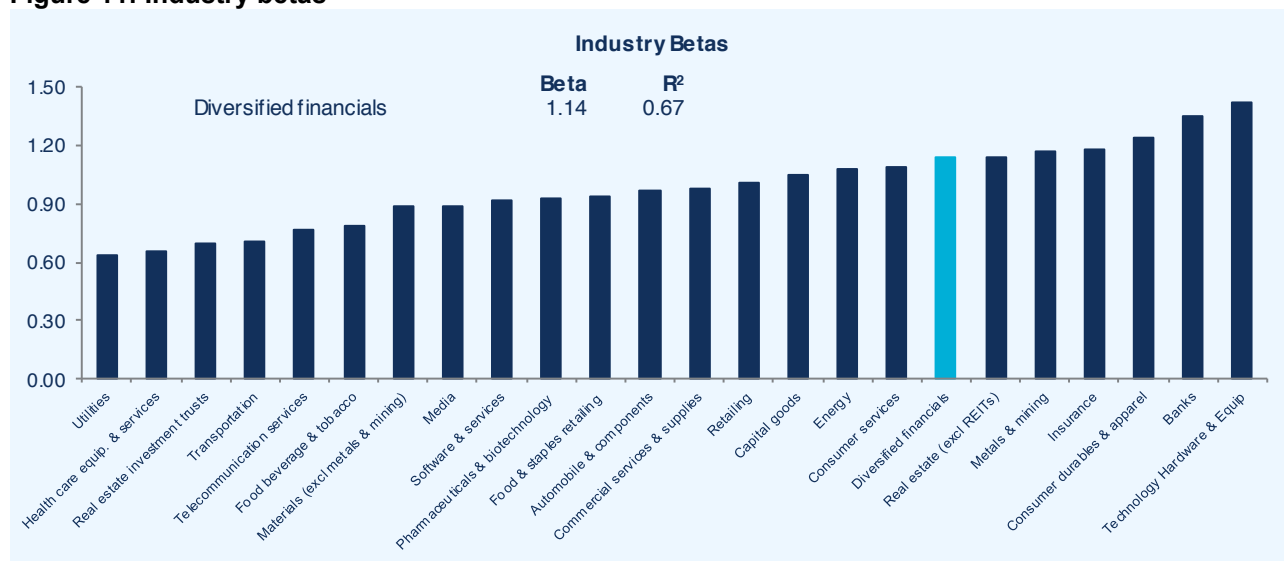
Beta estimate (β)

Description

The beta factor is a measure of the risk of an investment or business operation, relative to a well-diversified portfolio of assets. The only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or uninsurable risk.

Beta is a measure of the relative riskiness of an asset in comparison to the market as a whole – by definition the market portfolio has an equity beta of 1.0. The equity beta's of various Australian industries listed on the Australian Stock Exchange are reproduced below.

Figure 11: Industry betas



Source: SIRCA as at 30 September 2016 (latest available)

Betas derived from share market observations represent equity betas, which reflect the degree of financial gearing of the company. In order to eliminate the impact of differing capital structures, analysts often 'unlever' observed betas to calculate an asset beta. The selected asset beta is then 'relevered' with a target level of debt. In this instance the unlevering and relevering process is unnecessary as the comparable companies generally have no debt.

The betas of companies comparable to Hunter Hall are included in the following table.

Table 18: Comparable company betas

Company	Equity Beta			R²		
	SIRCA	Factset	Leadenhall	SIRCA	Factset	Leadenhall
Magellan Financial Group Ltd	1.33	1.09	0.95	0.44	0.17	0.15
BT Investment Management Limited	2.12	1.81	1.69	0.42	0.39	0.35
Platinum Asset Management Ltd	1.38	1.16	1.04	0.54	0.23	0.20
IOOF Holdings Ltd	1.61	1.44	1.38	0.54	0.57	0.55
Perpetual Limited	1.55	1.32	1.27	0.48	0.41	0.39
HFA Holdings Limited	0.54	0.43	0.30	0.54	0.02	0.01
Pacific Current Group Ltd	1.37	1.17	1.14	0.46	0.19	0.16
Fiducian Group Ltd	0.81	0.87	0.83	0.85	0.11	0.11
Australian Ethical Investment Ltd	0.17	0.15	0.17	0.01	0.00	0.01
K2 Asset Management Holdings Ltd	1.95	1.81	1.43	0.06	0.23	0.20
Hunter Hall International Limited	1.52	1.32	1.16	0.08	0.14	0.11
Average	1.30	1.14	1.03			
Median	1.38	1.17	1.14			

Source: SIRCA, FactSet and Leadenhall analysis

Selected beta (β)

In selecting an appropriate beta for Hunter Hall, we have considered the following:

- ◆ The average equity beta of the comparable Australian companies is between 1.03 and 1.30
- ◆ The median equity beta of the comparable Australian companies is between 1.14 and 1.38
- ◆ The most relevant industry beta is 1.14

As a result of these considerations we have selected an equity beta between 1.1 and 1.2.

Specific company risk premium (α)

Size premium

A number of studies have been undertaken attempting to measure the size premium, in particular in the US. The Valuation Handbook published by Duff & Phelps contains calculations of the size premium for each decile of market capitalisation. As the size premium is most significant for very small companies, the tenth decile is then further divided into four equal segments. The following table summarises the size premium data from the 2015 Valuation Handbook.

Table 19: Evidence of size premium

Size Premium			
Decile	Mkt Cap Range (US\$m)		Size Premium
	Low	High	
1 (Largest)	24,429	591,016	-0.4%
2	10,171	24,273	0.6%
3	5,864	10,106	0.9%
4	3,723	5,845	1.1%
5	2,552	3,724	1.6%
6	1,689	2,543	1.7%
7	1,011	1,687	1.7%
8	549	1,011	2.2%
9	301	549	2.7%
10w	232	301	3.2%
10x	191	232	5.5%
10y	116	191	7.5%
10z (Smallest)	3	116	12.0%

Source: Duff & Phelps 2015 Valuation Handbook

Notes:

1. Measured over the period from January 1926 to December 2013
2. Size premium compared to return predicted by CAPM
3. Market capitalisation as at 31 December 2013

As mentioned above, the existence of the size premium has been well documented. However, there are limited studies setting out the appropriate bands of size premium and the quantum of size premium applicable to each band. For this reason, the above table should be taken as broad support for the size effect and not an exact guide to the extent of any particular discount or premium that should be applied.

Although there is considerable evidence from the US, in the Australian context, the relatively small size of the Australian equity market makes it more difficult to observe the existence of this phenomenon.

Leadenhall and others have conducted a number of high level studies which have confirmed the existence of the size effect in the Australian market. However, we are not aware of any Australian studies that have been performed with the same detail and rigour as the US studies, such as the Duff & Phelps data presented above. Based on the evidence from US studies and our knowledge of prices actually paid in Australian transactions, from which a discount rate can be implied, we believe the size premium ranges in the below table are appropriate. This table should be taken as a guide to the appropriate size premium for a given business and needs to be considered in conjunction with the specific circumstances of a particular business.

Table 20: Leadenhall size premium bandings

Size Premium Guide for Australia				
Size	Mkt Cap Range (AU\$m)		Size Premium	
	Low	High	Low	High
Largest	4,000	Above	-	-
Large	1,000	4,000	-	1.0%
Mid-cap	300	1,000	1.0%	2.0%
Low-cap	100	300	2.0%	3.0%
Small-cap	50	100	3.0%	5.0%
Micro-cap	10	50	5.0%	8.0%
Medium private ¹	5	10	8.0%	11.0%
Small private ¹	2	5	11.0%	15.0%
Smallest ¹	-	2	15.0%	20.0%

Note:

¹. We do not generally consider the CAPM model to be reliable for entities of this size as they often do not meet the background assumptions underpinning the CAPM. In particular investors are often not diversified and it is rarely possible to lend or borrow stock of entities this size. These suggested size premiums are therefore presented as an approximate guide only as alternate models, studies and rules of thumb are commonly utilised for these types of companies.

Source: Leadenhall analysis

Based on current market capitalisation, Hunter Hall would be considered a small-cap company and as such a size premium of between 3.5% and 4.0% would generally apply. However, we have also considered how the factors leading to the generally observed size premiums apply to Hunter Hall. In particular, we note that:

- ◆ Hunter Hall has a strong and experienced board of directors supporting a management team which also has reasonable depth and experience for a business of this size
- ◆ Hunter Hall has a low level of key client dependence given the wide spread of funds and investors
- ◆ The key person risk common with smaller businesses has effectively been taken into account in the projected cash flows which already reflect the impact of Peter Hall's departure. Thus, including an allowance for this risk in the discount rate would be double counting.

After considering these factors we have selected a size premium of 1.5% to 2.0%.

Other company specific risks

The specific company risk premium adjusts the cost of equity for company specific factors, including unsystematic risk factors such as reliance on key customers, reliance on key suppliers, existence of contingent liabilities etc. We consider that these factors are reflected in the cash flow forecasts and as such have not applied a company specific risk premium.

Dividend Imputation

Since July 1987, Australia has had a dividend imputation system in place, which aims to remove the double taxation effect of dividends paid to investors. Under this system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is now not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added to any analysis of value.

However, in our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive. There are diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Due to the uncertainty surrounding the extent to which acquirers of assets factor in dividend imputation, we have taken the conservative approach and not factored in dividend imputation.

Conclusion on cost of equity

The following table sets out our cost of equity estimate for Hunter Hall based on the assumptions and inputs discussed above:

Table 21: Estimated cost of equity for Hunter Hall

Discount rate	Low	High
Risk-free rate	2.76%	2.76%
Equity beta	1.10	1.20
Market risk premium	6.50%	6.50%
Specific company risk premium (α)	1.50%	2.00%
Calculated cost of equity (post-tax)	11.41%	12.56%
Selected cost of equity (post-tax)	11.50%	12.50%

Source: Leadenhall analysis

Corporate tax rate (t_c)

The corporate tax rate in Australia is 30%. In calculating the WACC for Hunter Hall we have therefore used this rate of 30%.

Cost of debt capital (K_d)

The cost of borrowing is the expected future borrowing cost of the relevant project and/or business. The cost of debt is not relevant to our analysis as we have assumed there is no debt in an optimal capital structure for Hunter Hall.

Debt and equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset. We have selected a capital structure with no debt based on the comparable companies' gearing levels, the stage of Hunter Hall's development and their actual current gearing levels.

Calculation of WACC

The table below summarises the discount rate we have derived for Hunter Hall, based on the assumptions and inputs discussed above.

Table 22: Estimated WACC for Hunter Hall

Discount rate	Low	High
Calculated cost of equity (post-tax)	11.41%	12.56%
Debt to enterprise value ratio	0.0%	0.0%
Tax rate	30.0%	30.0%
Cost of debt	n/a	n/a
WACC (post tax nominal)	11.41%	12.56%
Selected WACC	11.5%	12.5%

Source: Leadenhall analysis

APPENDIX 4: COMPARABLE COMPANIES

The following company descriptions are extracted from descriptions provided by FactSet.

Company	Description
Australian Ethical Investment Ltd	Australian Ethical Investment Ltd. provides investment management services. The company invests in portfolio of industries, which includes clean energy, Sustainable Products, Medical Solutions, Innovative Technology, Healthcare, Recycling, Energy Efficiency, Education and aged care. Australian Ethical Investment was founded in 1986 and is headquartered in Sydney, Australia.
BT Investment Management Limited	BT Investment Management Ltd. engages in the provision of investment management services. It manages funds across different investments, including equities, fixed income, cash and global macro products. The firm provides investment management services to institutional clients as well as to all of BTIM's registered and unregistered trusts. The company operates through two segments comprise of the investment management business in Australia (BTIM) and outside of Australia (BTIM UK). BT Investment Management was founded on October 19, 2007 and is headquartered in Sydney, Australia.
Fiducian Group Ltd	Fiducian Group Ltd. Is a financial services company, which provides financial services solutions both individuals and organizations. It provides financial planning, funds management, investment platform administration, information technology and accounting/accountancy resourcing services. The company operates through its segments: Platform Administration, Financial Planning, Business Services, Funds Management and Administration. It services include wrap platforms and client portfolio administration, wealth management and financial planning services, information technology solutions for financial planners. Fiducian Group was founded by Inderjit Singh in 1996 and is headquartered in Sydney, Australia.
HFA Holdings Limited	HFA Holdings Ltd. engages in global funds management business, primarily providing absolute return fund products and services to investors. It operates through two business subsidiaries: Lighthouse Investment Partners, LLC; and Certitude Global Investments Ltd. The Lighthouse Investment Partners engages in the business of hedge fund investing. The Certitude Global Investments focuses on providing Australian investors access to global investment opportunities across a variety of asset classes. The company was founded in 1998 and is headquartered in Brisbane, Australia.
Hunter Hall International Limited	Hunter Hall International Ltd. engages in the investment management business. It operates through the following segments: Investment Management Business, Investing Activities, and Consolidation of Seeded Funds. The Investment Management Business segment refers to five retail equity funds managed by the company. The Investing Activities segment comprises the investment services. The Consolidation of Seeded Funds segment includes the new funds seeded by the company. The company was founded by Peter James MacDonald Hall on March 3, 1993 and is headquartered in Sydney, Australia.
IOOF Holdings Ltd	IOOF Holdings Ltd. engages in the provision of financial services. It operates through the following segments: Platform Management and Administration, Investment Management, Financial Advice and Distribution, Trustee Services, and Corporate and Other. The Platform Management and Administration segment involves in providing administration and management services, which offer a single access point to investment products. The Investment Management segment offers management and investment of money on behalf of corporate, superannuation, institutional clients, and private individual investor clients. The Financial Advice and Distribution segment includes financial planning advice and stock broking services supported by services such as investment research, training, compliance support, and access to financial products. The Trustee Services segment consists of estate planning, trustee, custodial, agency and estate administration services. The Corporate and Other segment comprises of strategic, shareholder or governance nature incurred in carrying on business. The company was founded in 1846 and is headquartered in Melbourne, Australia.

Company	Description
K2 Asset Management Holdings Ltd	K2 Asset Management Holdings Ltd. operates as a holding company of K2 Asset Management Ltd. K2 Asset Management specializes in funds management. It has three investment funds focuses on Australian, Asian and international equities markets. K2 Asset Management Holdings was founded on March 27, 2007 and is headquartered in Melbourne, Australia.
Magellan Financial Group Ltd	Magellan Financial Group Ltd. is an Australia based fund management company. It manages global equities and global listed infrastructure strategies for high net worth, retail and institutional investors. It operates through three segments: Funds Management, Principal Investments and Corporate. The company was founded by Hamish Macquarie Douglass and Christopher John Mackay on March 19, 2004 and is headquartered in Sydney, Australia.
Pacific Current Group Ltd	Pacific Current Group Ltd. is an investment and financial services business focused on boutique funds management companies. The company invests in and supports the management of small to medium sized asset management companies. It provides funds management services to institutions, master funds and wraps, retail investors and private clients. The company offering can include Capital investment structured as equity, debt or otherwise for various purposes, distribution and marketing services, responsible entity services and other business support services including risk and compliance, accounting, finance, HR and operations. The company was founded by Lee laFraté in 1998 and is headquartered in Sydney, Australia.
Perpetual Limited	Perpetual Ltd. operates as an independent and diversified financial services group, which provides specialized investment management, wealth advice and corporate fiduciary services to individuals, families, financial advisers and institutions. It operates through the following segments: Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. The Perpetual Investments segment manufactures financial products, management and investment of monies on behalf of private, corporate, superannuation and institutional clients. The Perpetual Private segment provides a range of investment and non-investment products and services, including a comprehensive advisory service, portfolio management, philanthropic, executorial and trustee services to high net worth and emerging high net worth Australians. This segment also provides many of these services to charities, not for profit and other philanthropic organizations. The Perpetual Corporate Trust segment provides fiduciary services incorporating safe-keeping and recording of assets and transactions as custodian, responsible entity services, trustee services for securitization, unit trusts, REITS and debt securities, data warehouse and investor reporting and registrar, or agent for corporate and financial services clients. Perpetual was founded on September 28, 1886 and is headquartered in Sydney, Australia.
Platinum Asset Management Ltd	Platinum Asset Management Ltd. is a non-operating holding company, which engages in the provision of financial services. It operates through the following business segments: Funds Management, Investments and Other segments. The Funds Management segment deals with investment vehicles. The Investments and Other segment include foreign cash holdings, dollar term deposits, and trust funds. The company was founded by Kerr Neilson and Andrew M. Clifford in February 1994 and is headquartered in Sydney, Australia.

APPENDIX 5: CONTROL PREMIUM

Background

The difference between the control value and the liquid minority value is the control premium. The opposite of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including:

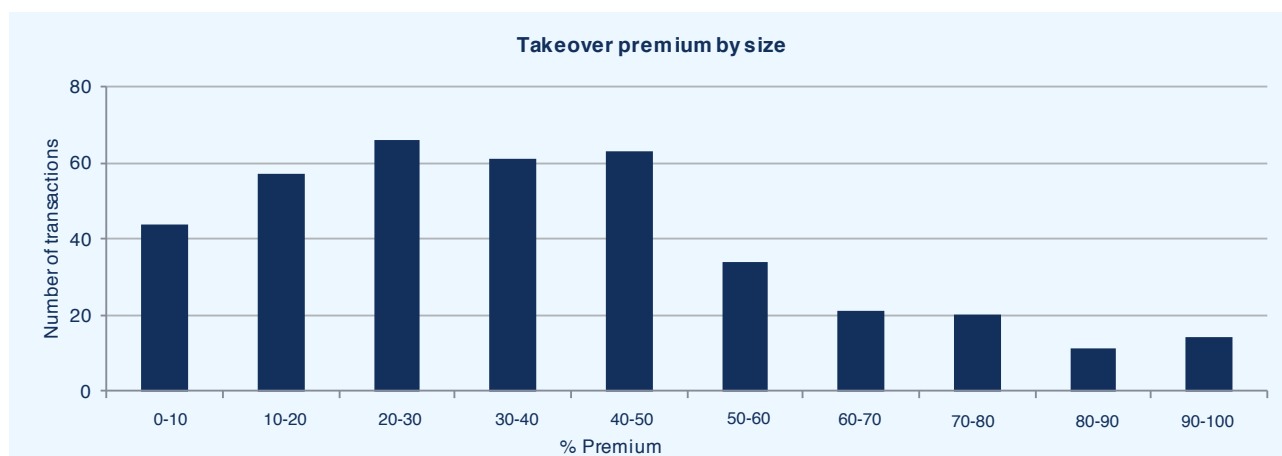
- ◆ Appoint or change operational management
- ◆ Appoint or change members of the board
- ◆ Determine management compensation
- ◆ Determine owner's remuneration, including remuneration to related party employees
- ◆ Determine the size and timing of dividends
- ◆ Control the dissemination of information about the company
- ◆ Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- ◆ Set the financial structure of the company (debt / equity mix)
- ◆ Block any or all of the above actions

The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2005 and 2015. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

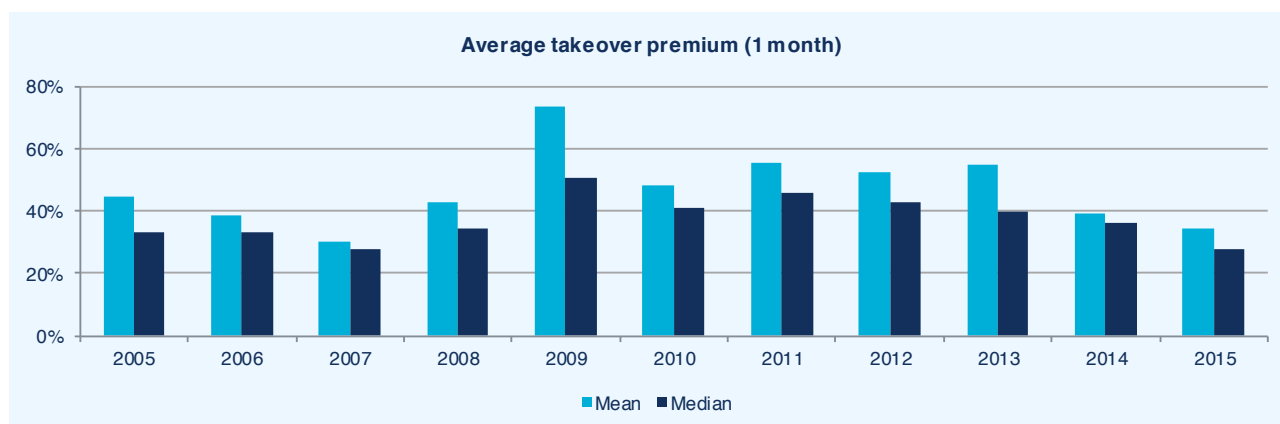


Sources: FactSet, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premium is in the range of 20% to 30%, with approximately 60% of all premiums falling in the range of 0% to 40%.

Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

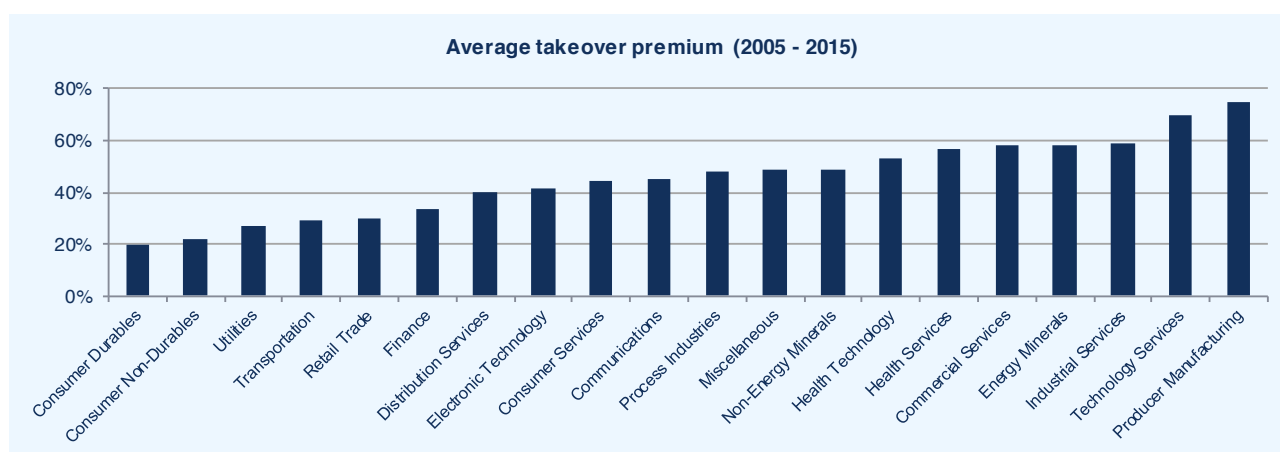


Sources: FactSet, Leadenhall analysis

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 50%.



Sources: FactSet, Leadenhall analysis

A number of industries have fairly high averages which have been impacted by specific transactions as set out below:

- ◆ **Producer Manufacturing:** includes two transactions with control premiums over 100%. The average premium is 25% lower when these transactions are excluded.
- ◆ **Technology Services:** includes four transactions with control premiums in excess of 100%. The average premium is 30% lower when these transactions are excluded.
- ◆ **Industrial Services:** includes two transactions with control premiums in excess of 100%. The average premium is 30% lower when these transactions are excluded.
- ◆ **Energy Minerals:** includes six transactions with control premiums in excess of 100%. The average premium is 20% lower when these transactions are excluded.
- ◆ **Commercial Services:** includes four transactions with control premiums in excess of 100%. The average premium is 20% lower when these transactions are excluded.
- ◆ **Health Services:** includes one transaction with a control premium of 183%. The average premium is 20% lower when this transaction is excluded.

Key factors that generally lead to higher premiums being observed are more than one party presenting a takeover offer, favourable trading conditions in certain industries (e.g. recent mining and tech booms), when the price includes special value and scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- ◆ Deloitte - 20% to 40%
- ◆ Ernst & Young - 20% to 40%
- ◆ Grant Samuel - 20% to 35%
- ◆ KPMG - 25% to 40%
- ◆ Lonergan Edwards - 30 to 35%
- ◆ PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature published by leading valuation experts.

Alternative View

Whilst common practice is to accept the existence of a control premium, in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate view point to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. The reason we see some takeovers at a premium is that if a company is not well run, there is a control premium related to the difference in value between a hypothetical well run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership/strategic stakes will confer different degrees of control and rights as shown below.

- ◆ 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- ◆ 75% - power to pass special resolutions
- ◆ > 50% - gives control depending on the structure of other interests (but not absolute control)
- ◆ > 25% - ability to block a special resolution
- ◆ > 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- ◆ < 20% generally has only limited influence

Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

50%

For all practical purposes, a 50% interest confers a similar level of control to holdings of greater than 50%, at least where the balance of the shares are listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.

Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

<20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.

As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium, Aswath Damodaran¹ notes "the value of controlling a firm has to lie in being able to run it differently (and better)". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

¹ Aswath Damodaran is a Professor of Finance at the Stern School of Business at New York University, where he teaches corporate finance and equity valuation. He has written several books on equity valuation, as well as corporate finance and investment. He is also widely published in leading finance journals.

Key Factors in Determining a Reasonable Control Premium

Key factors to consider in determining a reasonable control premium include:

- ◆ **Size of holding** – Generally, larger stakes attract a higher control premium
- ◆ **Other holdings** – The dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- ◆ **Industry premiums** – Evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- ◆ **Size** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- ◆ **Dividends** – a high dividend payout generally leads to a low premium for control
- ◆ **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- ◆ **Board** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- ◆ **Shareholders agreement** - the existence and contents of a shareholders agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium

APPENDIX 6: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for Hunter Hall's shareholders for the purpose of assessing the fairness and reasonableness of the Takeover Offer. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by Hunter Hall being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to Hunter Hall's management for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Leadenhall's consideration of this information consisted of enquiries of Hunter Hall's personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards, or any other standards. Nothing has come to our attention as a result of these enquiries to suggest that the financial projections for Hunter Hall, when taken as a whole, are unreasonable for the purpose of this report.

We note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information of Hunter Hall referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by Hunter Hall and their officers, employees, agents or advisors, Hunter Hall has agreed that it will not make any claim against Leadenhall to recover any loss or damage which it may suffer as a result of that reliance and that it will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by Hunter Hall and their officers, employees, agents or advisors or the failure by Hunter Hall and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Simon Dalgarno, B.Ec, FCA, F.FINSIA and Katy Lawrence, BCom., CA.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and this report is a valuation engagement in accordance with that standard and the opinion is a Conclusion of Value.

Independence

Leadenhall has acted independently of Hunter Hall. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.

Registered Office:	Level 2, 56 Pitt St Sydney, NSW 2000
Directors:	Kevin Eley Non-executive Chairman Wayne Hawkins Non-executive Director David Groves Non-executive Director Peter Hall Executive Director
Company Secretary:	Paula Ferrao
Share Registry:	Computershare Investor Services Pty Limited
Legal Advisor:	K&L Gates Level 31, 1 O'Connell Street, Sydney, NSW 2000
Financial Advisor:	Moelis & Company, Level 27, Governor Phillip Tower, One Farrer Place, Sydney, NSW 2000



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