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ASX ANNOUNCEMENT

## HFA Holdings Limited Update

### Strategic Alliance with Apollo, Issue of Mandatory Convertible Notes and Options, and 1 for 4 Share Consolidation

#### Summary

HFA Holdings Limited ("HFA") and Apollo Global Management, LLC (together with its affiliates, "Apollo") today announce that they have entered into the following conditional agreements:

- **Subscription Agreement** - under which HFA will issue US\$75m of Mandatory Convertible Notes (the "MCNs") and 125m<sup>1</sup> options over HFA shares (the "Options") to Apollo and a co-investor. US\$65m of the proceeds from the MCN issue will be used to pay down HFA's current loan facility, with the balance to be used for working capital and to pay transaction costs. The MCNs have a conversion price of US\$0.2442<sup>1</sup> (equal to A\$0.25<sup>1</sup> based on the current exchange rate) and the Options have an exercise price of A\$2.00<sup>1</sup>; and
- **Marketing Agreement** - under which Apollo will distribute the investment products and services of Lighthouse Investment Partners, LLC ("Lighthouse"), HFA's US-based subsidiary, through Apollo's global distribution network (the "Alliance").

Apollo is a leading global asset manager and manages funds on behalf of some of the world's most prominent institutional investors. As of 30 June 2010, Apollo had Assets Under Management ("AUM") in excess of US\$54bn. The proposed investment in HFA is a strategic position for Apollo, being undertaken at the parent company level, outside of Apollo's investment funds. This strategic alliance aligns the interests of HFA and Apollo with respect to seeking to maximise the opportunities for Lighthouse investment products and services.

The Alliance, the issue of MCNs and the issue of the Options are subject to a number of conditions, including HFA shareholder approval and receipt of governmental and regulatory approvals. The HFA Board unanimously recommends that, subject to the conditions set forth in the transaction documents, shareholders vote in favour of the proposed transaction.

UBS AG, Australia Branch is acting as financial adviser to HFA in relation to the proposed transaction.

#### Rationale for the Alliance and the MCN issue

The Alliance and the MCN issue are expected to provide a number of benefits to HFA shareholders, including:

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<sup>1</sup> On a pre share consolidation basis - refer to page 2 for detail on the proposed share consolidation and its impact on the terms of the proposed transaction.

### **Improved Growth Outlook**

The proposed transaction has the potential to result in considerable growth over time in Lighthouse's AUM, which will benefit the continued development of its proprietary managed account program. This initiative is expected to be instrumental in driving HFA's earnings growth. While the Alliance will provide access to Apollo's extensive relationships, Lighthouse is expected to further benefit from the affiliation with the globally recognised Apollo brand and HFA's enhanced capital structure;

### **Strengthened Financial Position**

US\$65m of the proceeds from the MCN issue will be used to pay down HFA's current loan facility. The MCNs will be classified largely as equity on HFA's balance sheet since ultimate conversion into HFA shares is mandatory. This event will provide HFA with a stronger financial position and more conservative capital structure;

### **Increased Financial Flexibility**

HFA's existing loan facility will be reduced to approximately US\$29m after the partial repayment, and extended for five years. Importantly, on settlement of the MCN issue and partial repayment of the loan facility, the residual balance of the loan facility will be substantially matched by HFA's cash holdings. The terms of the bank facility will be amended to provide HFA with greater financial flexibility; and

### **Greater Ability To Attract And Retain Employees**

The strengthened financial position and improved growth outlook is expected to support HFA's ability to attract, retain and motivate its employees and key management personnel. HFA believes that equity ownership by employees is a key driver of long-term sustainable growth.

HFA Executive Chairman and Chief Executive Officer, Spencer Young, said: "The proposed transaction creates a powerful alliance with Apollo, a recognised global leader in alternative asset management, and at the same time enables HFA to significantly strengthen its financial position. The strengthened balance sheet, combined with access to Apollo's global relationships and expertise, will enhance Lighthouse's position as an innovative solutions provider in the alternative investment space and position HFA for any industry consolidation opportunities that may present themselves."

Apollo Founder, Chairman and Chief Executive Officer, Leon Black, said: "Apollo is excited about the opportunity to work with HFA and the Lighthouse management team. Key to the alliance will be access to Lighthouse's hedge fund investment expertise and its proprietary managed account program. We believe that Lighthouse offers a compelling and differentiated alternative investment opportunity which will be attractive to many of our clients. Increasingly, our clients want us to provide investment solutions across private equity, credit and hedge funds. By establishing an alliance with Lighthouse, we believe we can offer more integrated solutions for our clients."

### **Share consolidation**

Concurrently with the proposed transaction, in order to reduce the number of shares on issue HFA is today announcing a share consolidation. Under the terms of the proposed consolidation every 4 HFA ordinary shares on issue as at the date of the shareholder meeting will be consolidated into 1 share. Immediately after implementation of the share consolidation (but

before settlement of the MCN issue) each shareholder will still hold the same proportion of HFA shares as before the consolidation, subject to the effect of any rounding of fractional shareholdings. Implementation of the share consolidation is subject to HFA shareholder approval.

If the proposed share consolidation is approved by HFA shareholders and becomes effective the economic terms of the proposed transaction will be adjusted accordingly. Specifically:

- The MCN conversion price will be US\$0.9766 (equal to A\$1.00 based on the current exchange rate); and
- Only 31.25m Options will be issued, and they will have an exercise price of A\$8.00.

### **Summary terms of the Alliance**

Subject to the transaction proceeding, under the terms of the Alliance, Apollo will provide certain distribution services in connection with the sale of Lighthouse investment products, including:

- Working with Lighthouse management to develop a comprehensive plan for the distribution of Lighthouse investment products; and
- Assisting with distribution efforts across Apollo's client relationships.

### **Summary terms and conditions of the MCN issue**

The key terms of the MCNs include the following:

- Mandatory conversion into HFA shares after 8 years;
- Initial conversion price is US\$0.9766 (on a post share consolidation basis), and thereafter subject to standard anti-dilution adjustment provisions;
- The noteholder may cause conversion at anytime;
- HFA may cause conversion after 4 years subject to certain conditions;
- Interest accrues at the rate of 6.0% p.a., paid via principal capitalisation for the first 4 years, and thereafter either in cash or via principal capitalisation (at HFA's discretion);
- HFA is to comply with certain negative and positive covenants outlined in the Subscription Agreement where Apollo holds MCNs which convert to more than 20% of the issued capital of HFA; and
- The MCNs are subordinated to HFA's loan facilities.

On the date that the MCNs are issued they will be convertible into approximately 76.8m underlying HFA ordinary shares (on a post share consolidation basis). Based on the number of currently outstanding HFA ordinary shares this implies a 39.6% interest in HFA's share capital on an 'as converted' basis.

The MCN issue remains subject to several conditions, including the following:

- HFA shareholder approval for the issue of the MCNs and the Options under section 611 Item 7 of the Corporations Act;
- All required regulatory approvals being obtained, including Foreign Investment Review Board approval;
- An Independent Expert opining on the transaction and concluding that the proposed transaction is fair and reasonable;
- Appointment of three (3) Apollo approved representatives as Directors of HFA; and
- Certain existing employee shareholders, who currently hold approximately 30% of HFA's ordinary share capital, entering into a right of first refusal agreement with Apollo.

The Subscription Agreement and Convertible Note Deed Poll set out the full terms and conditions of the MCN issue, and are being released in conjunction with this announcement.

The Subscription Agreement contains customary exclusivity provisions in favour of Apollo, including no shop, no talk and no due diligence provisions. In addition, the Subscription Agreement contains matching rights arrangements, and fixed break fee arrangements of US\$750,000 in favour of Apollo apply in certain circumstances.

### **Shareholder approval process**

HFA will hold a shareholder meeting, expected to be in February 2011, at which HFA shareholders will have the opportunity to vote on a range of resolutions regarding the approval of the proposed transaction and the proposed share consolidation.

A Notice of Meeting together with an Explanatory Memorandum explaining the benefits and risks of the proposed transaction, and containing an Independent Expert's Report, will be sent to HFA shareholders prior to the meeting. The Notice of Meeting and Explanatory Memorandum are expected to be mailed to HFA shareholders by early January 2011.

### **About Apollo Global Management**

Apollo is a leading global alternative asset manager with offices in New York, Los Angeles, London, Frankfurt, Luxembourg, Singapore, Mumbai and Hong Kong. Apollo had AUM of over \$54bn as of 30 June 2010, in private equity, credit-oriented capital markets and real estate funds invested across a core group of nine industries where Apollo has considerable knowledge and resources. For more information about Apollo, please visit [www.agm.com](http://www.agm.com).

### **About HFA**

HFA Holdings Limited is the listed Australian holding company for an industry-leading assembly of global fund managers. The company currently comprises two wholly-owned operating subsidiaries – the Australian based Certitude Global Investments Limited and US-based Lighthouse Investment Partners, LLC. Combined the companies have in excess of A\$5.5bn in



AUM as of 30 June 2010. The group in Australia and overseas employ's approximately 100 staff with offices in Sydney, Brisbane, New York, Chicago, Florida, London and Hong Kong.

### **About Lighthouse**

Lighthouse Investment Partners, LLC is a fund of hedge funds and managed account investment adviser managing approximately US\$4.5 billion for institutional and private investors with offices in Florida, Chicago, New York, London and Hong Kong. The proprietary managed account program is a hallmark of Lighthouse's investment process.

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