



**HFA Holdings Limited**  
**ACN 101 585 737**

8 October, 2008  
ASX ANNOUNCEMENT

**HFA HOLDINGS LIMITED**  
**Chairman's and Chief Executive Officer's Addresses**  
**Annual General Meeting**  
**8 October, 2008 – 11am**  
**Four Seasons Hotel – Sydney**

**Chairman's Address – Brett Howard**

**SLIDE 5**

As you may remember last year's AGM was preceded by an Extraordinary General Meeting to approve the issue of shares as part of our acquisition of US-based fund manager Lighthouse Investment Partners LLC. The transaction was successfully concluded in early January and made HFA the largest absolute return fund manager in Australia and one of the largest in the world.

I am pleased to report that while this transaction required an extensive commitment from management and staff we were able to remain focussed on our core business and deliver another strong performance. The result for the year is even more remarkable given the state of global investment markets.

Financially, we achieved a record full year Net Profit After Tax (NPAT) of \$35.2 million, up 73 per cent on the previous year with revenue up 32% to \$98.6 million. Including the additional funds provided by Lighthouse our Assets Under Management (AUM) rose 141% to of \$9.365 billion while funds under management reached \$7.873 billion, up 244 per cent, as at 30 June, 2008.

While many fund managers reported dramatic falls in assets under management due to the combination of falling asset values and investor redemptions HFA managed to record four consecutive quarters of positive inflows, with total inflows for the year of \$535.41 million.

On the back of these results and with due consideration of market conditions, the board declared a final 3.5cps fully franked dividend, resulting in a fully franked dividend for the full year of 5.6 cps.

In closing, I would firstly like to thank the hardworking staff and management of HFA for their contributions throughout 2008. Fluctuations in global markets over recent months have provided a number of significant challenges to both our business as well as the merger process. I am happy to say our staff continue to rise to the challenge and remain focused on achieving their objectives.

Secondly, I would like to thank you as loyal shareholders for your continued support throughout the year. I will now hand over to Spencer Young.

**Chief Executive Officer - Spencer Young**

**SLIDE 7**

Thankyou Brett and may I extend my own welcome to shareholders.



As Brett touched on the 2008 financial year was a watershed year for HFA in which we undertook a major company-changing transaction while at the same time global financial markets began to feel the full impact of the sub prime mortgage crisis in the United States. This crisis has now mushroomed into a large scale credit and economic crisis of which we are still feeling the impact.

Today I wish to address HFA's response to these external market factors and explain why we believe we are well positioned to deal with these challenges.

In reviewing the 2008 financial year I believe we achieved a number of important financial and strategic goals. Firstly, our FY08 results demonstrated an ability to remain focussed and driven during a period of massive change and upheaval both internally and externally. This focus allowed us to:

- meet and exceed expectations across a range of key financial indicators
- maintain investment inflows while competitors experienced net outflows; and
- generate strong, diverse revenue streams.

#### **SLIDE 8**

I would like to provide a brief overview of the HFA business as it is today.

Following the merger with Lighthouse we are now a truly global business with nearly 100 staff and representatives in nearly every major financial centre. This international presence ensures we have access to the appropriate local resources and knowledge in developing investment strategies for our funds. To ensure success in our industry it is essential to have your finger on the pulse of global markets, having experienced staff in these areas gives us that confidence.

We are currently ranked as the 33<sup>rd</sup> largest Fund of Hedge Fund (FoHF) manager in the world and hope to climb this list further in the coming years. The global hedge fund industry continued its long-term growth trend to the end of 2007 with assets (not including assets invested in fund of hedge funds) increasing by \$462 billion in 2007 to \$1.997 trillion. Fund of Hedge Funds (FoHF) assets more than doubled in the three years up to 2007 to reach nearly \$US950bln or around 40% of global hedge fund assets.

#### **SLIDE 9**

Structurally we have retained the HFA Asset Management and Lighthouse businesses as independent entities with dedicated and committed management. Investment management is the only area where the businesses retain strong linkages to ensure we have a globally, coordinated approach to investment management. These links have been developed over many years of working together prior to the merger and have only been enhanced by bringing Lighthouse under the umbrella of HFA Holdings.

#### **SLIDE 10**

HFA also now has an incredibly diverse range of investors both by type of investor and geographic location. This diversity limits our exposure to any one market and provides us with stable and predictable revenues over the long term. One of the other key benefits of the merger with Lighthouse is the increased diversity of our investor base with a greater level of funds from both the institutional and high net worth markets where Lighthouse is traditionally strong. The strengths compliment HFA Asset Management which has built a strong presence in the retail market.



**SLIDE 11**

I would like to now briefly discuss one of the key elements of our business, which is investment flows.

The merger with Lighthouse has given us the increased scale, diversity and skills to deal effectively with the ongoing market upheavals by maintaining positive net inflows and ensuring our products continue to outperform the market.

By focussing on our core strengths of investment management and product distribution we have been able to deliver four consecutive quarters of positive inflows at a time when many of our competitors were reporting dramatic outflows. This success has continued into the new financial year and I am happy to report positive net inflows for the most recent September quarter of more than \$116.2 million.

We also saw relatively-benign redemption levels during the year which is a good result in a market where the global credit crisis and related economic uncertainty has seen a general tendency by investors to move into cash.

Our ability to retain and attract new investment capital for its products in the current market was testament to the capital preservation qualities of the group's core absolute return investment funds.

**SLIDE 12**

Our ability to continue attracting investors in an increasingly difficult market is testament to the performance of our funds.

The company's core investment funds – the LHP Diversified Fund and the LHP Global Long Short Fund – continued to provide above average risk-adjusted returns throughout 2008 and into the new financial year. Together, the funds represent approximately 75% of HFA's total AUM.

As you can see from this table, the LHP Diversified Fund and the LHP Global Long Short Fund both compare extremely favorably with leading indicators over the short to medium term.

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As I'm sure we are all aware the current market is characterised by low investor confidence and high volatility. As you can see from this table, that lack of confidence has manifested in sharp declines in most major indices. However, our underlying investments, the Lighthouse Partners funds, have experienced comparatively-small declines.

The reason for this is that absolute return funds have strong underlying capital preservation qualities. Unlike long-only funds, absolute return funds can hedge their exposure to falling markets.

As a consequence of this the benefits of absolute return investing during bear markets or periods of extreme volatility are significant and they actually provide a protection mechanism for investors' portfolios during periods of volatility.

**SLIDE 14**



Longer-term fund performance is demonstrated rather acutely in this graph which tracks the value of \$10,000 invested in the Lighthouse Diversified Fund at inception in 1996.

Achieving this level of outperformance in the long term requires a commitment to some key principles. At HFA we believe:

- It is always better to miss a perceived good opportunity than risk sustaining real losses
- In eliminating as much directional market exposure as possible
- That an active strategy of diversification reduces the risk of loss
- In avoiding strategies we do not understand
- That the “back-office” risk of an investment manager can be as substantial as the “front-office” risk; and
- That character matters. Reference and background checks are critical in our choice of investment managers

#### **SLIDE 15**

The core strength of the absolute return investment philosophy is its focus on capital preservation which leaves our investors with a well-preserved capital base for when markets begin to recover and removes a need for a ‘catch-up’ phase (to recoup losses) before participating in market rebounds.

As demonstrated here, the ability to retain capital during periods of volatility is central to longer-term outperformance.

#### **SLIDE 16**

In providing some guidance on the future, it is important to recognise that the major shift by investors away from traditional long-only investments and towards alternatives will continue for a number of years and the strength of the HFA and Lighthouse brands in their respective markets will ensure we benefit from this shift.

We believe there are a number of opportunities to continue the out-performance of our core funds with the possibility for material upside in fund performance and inflows when more normal markets return.

HFA remains well positioned to maximise the opportunities presented by an industry-wide shift from traditional (long-only) strategies to alternative investments. We believe that compelling investment opportunities will be presented once calm returns to the markets and these opportunities may provide the possibility for material upside in fund performance and inflows.

However, as we stated at the time of our full-year results, we do not believe accurate financial guidance is possible or appropriate in the current climate.

The company draws income from a mix of recurring management revenue and non-recurring performance-based revenue. Both revenue streams are highly dependent on prevailing financial and economic conditions as well as investor sentiment.

The current extended period of volatility greatly diminishes the company’s ability to make the underlying assumptions on which to base accurate or reliable financial forecasts.



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HFA is an “absolute return” fund manager and the Board believes the current market conditions continue to present the opportunities available to the company through a greater appreciation by investors of the capital preservation qualities of absolute return investing. Fund of Hedge Fund’s strive to achieve attractive investment returns in rising and bull markets while they strive to protect capital in bear markets. This is exactly what we have managed to achieve since the inception of our funds in 1996.

However, what we are currently experiencing are “crisis markets” which have attracted unprecedented government intervention and commentary from some well-respected figures in international finance, including Warren Buffet and Alan Greenspan, suggesting it is a 1 in a 100 year event.

In such markets I believe the Fund of Hedge Funds will unfortunately suffer some losses, however these losses will still significantly outperform market indexes and traditional long only funds in preserving capital. I also believe that on the return of more normal market conditions, then it is highly likely above average returns will be delivered by Fund of Hedge Funds.

I will now hand back to Brett for the formal component of the meeting.

ENDS