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PACIFIC CURRENT GROUP LIMITED

PROPOSED RESTRUCTURING TRANSACTION

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

8 FEBRUARY 2017



8 February 2017

The Independent Directors
Pacific Current Group Limited
Level 29, 259 George Street
Sydney NSW 2000

Dear Directors,

Independent Expert's Report in Relation to Proposed Restructuring Transaction

1. Introduction

In November 2014 Treasury Group Limited ("Treasury Group") and Northern Lights Capital Partners LLC ("Northern Lights") completed a merger (the "Merger") to create a diverse international portfolio of boutique fund managers. Following the Merger, Treasury Group was renamed Pacific Current Group Limited ("PCG").

As part of the Merger, PCG and Northern Lights contributed their investment management businesses to a newly created, Australian-domiciled trust, Aurora Trust (the "Trust"). Aurora Investment Management Limited ("AIML") is the trustee of the Trust (the "Trustee"). Following the Merger, the interest in the Trust was the only significant asset of PCG.

PCG and Northern Lights hold their interest in the Trust through a number of instruments as follows:

- ◆ PCG was issued Class A units by the Trust which represented approximately 61.22% of the total units of the Trust on issue at the time of the Merger ("A Class Units"). Class A Units are entitled to one vote per unit, rank equally with Class B Units and are entitled to distributions from the Trust broadly in line with the economic interest in the Trust
- ◆ Northern Lights was issued Class B Units which represented a 38.78% interest in the Trust at the time of the Merger ("B Class Units"). Class B Units are entitled to one vote per unit, rank equally with Class A Units and are entitled to distributions from the Trust broadly in line with the economic interest in the Trust. Class B Units are exchangeable (at the holder's election) to PCG common shares at certain fixed ratios
- ◆ Northern Lights was also issued Class B-1 Units which are non-voting and subject to vesting. Vested Class B-1 Units are also exchangeable into PCG common shares. Vesting of the Class B-1 Units causes an equal number of existing Class B units to be reduced. There is therefore no impact on Class A unitholders economic interest in the Trust as a consequence of the vesting of Class B-1 units. For the purpose of our report we refer to Class B Units and vested Class B-1 Units as 'Class B Units'
- ◆ The Trust also issued Class X redeemable preferred units ("XRPU"), with a face value of \$US42 million, to the Class B Unitholders

At the time of the Merger it was intended that Class B Units would convert into PCG shares within five years. As part of the funding of additional investment made subsequent to the Merger, PCG's interest in the Trust increased to approximately 65% and Class B holders interest declined to approximately 35%.

The XRPUs were expected to be redeemed at par within two years from completion of the Merger (but subject to repayment in certain instances). The XRPUs are payable in the event the relative performance, in terms of the aggregate profits before taxes (excluding abnormal income or non-recurring income, performance fees and carried interest) for a particular financial year ("NPBTA") of certain Northern Lights boutiques relative to the NPBTA of the legacy Treasury Group boutiques exceeds a certain threshold. Any payment made is subject to a clawback provision that would cease to apply so long as a 'Northern Lights Threshold Event' occurs, defined as happening when a 'Northern Lights Threshold Amount' exceeds a defined 'Repayment Amount' as discussed in Section 1.2.1.

If the relative performance threshold is not met within 7 years after the completion of the Merger (i.e. November 2021) a payment to the Class B Unitholders may still be required.

The key terms of the XRPUs are set out in the Trust Deed dated 21 November 2014 as amended ("Trust Deed"). Further details of the key terms of the XRPUs and the Class B Units are set out in Section 1.2.1.

The legacy Northern Lights alternatives portfolio (collectively the 'Northern Lights Alternatives Portfolio') consists of the Trust's interests in:

- ◆ Raven Capital Management ("Raven")
- ◆ Nereus Holdings LP ("Nereus")
- ◆ Goodhart Partners, LLP ("Goodhart")
- ◆ Northern Lights Alternative Advisers, LLC ("NLAA")
- ◆ Blackcrane Capital, LLC ("Blackcrane")
- ◆ EAM Global Investors, LLC ("EAM")

The legacy Treasury Group alternatives portfolio (collectively the 'Treasury Alternatives Portfolio') consists of the Trust's interests in:

- ◆ Roc Partners (Cayman) Limited ("Roc Partners")
- ◆ Aubrey Capital Management Ltd ("Aubrey")

Collectively the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio are referred to as the 'Alternatives Portfolio.' The Trust's interests in Raven and Aubrey¹ have since been sold.

2. Proposed Transaction

The board of PCG has previously announced that the current financial structure of the group is complex and cumbersome to operate and the board was therefore working on a simplification process in order to eliminate complexity and simplify the balance sheet with the aim of creating benefits to all investors. To this end, PCG is proposing to undertake the following restructuring of the group ("Proposed Transaction"):

- ◆ **Redemption of the XRPUs:** it is proposed that the XRPUs will be redeemed in full for an aggregate amount of US \$21 million ("XRPU Settlement Amount") with the payment to be made on or before 31 March 2018 and will be allocated among the then existing XRPU holders on a pro rata basis ("XRPU Redemption")
- ◆ **Class B conversion:** Class B units (including vested Class B-1 units) will be exchanged for PCG common shares at a ratio of 1.1 Class B Units for each PCG Share ("Class B Conversion")². PCG will issue 13.7 million PCG shares to Class B Unitholders equivalent to a 32.8% interest in PCG ("PCG Shares") if the transaction is approved

Further details of the Proposed Transaction are set out in Section 1 of our detailed report.

¹ Commercial terms have been agreed. Completion expected by March 2017

² Prior to conversion, there will be a reconstruction of the units in the Trust such that the number of Class A Units issued as of the date of exchange is equal to the number of PCG ordinary shares issued and outstanding at the time

3. Purpose of report

ASX Listing Rule 10.1.1 ("Listing Rule 10.1") requires a listed entity to obtain shareholders' approval before it acquires a substantial asset from a related party. The notice of meeting ("NOM") sent to shareholders advising them of such a transaction must include a report from an independent expert stating whether the transaction is fair and reasonable to the shareholders.

PCG's share of the XRPU Settlement Amount and the consideration for the Class B Conversion are substantial assets in accordance with Listing Rule 10.1. Furthermore, both the XRPU Redemption and the Class B Conversion are with a related party.

As a result, both the XRPU Redemption and the Class B Conversion must be approved by PCG Shareholders.

The independent directors of PCG have therefore requested Leadenhall to prepare an IER in accordance with Listing Rule 10.1 advising whether, in our opinion, the XRPU Redemption and the Class B Conversion are fair and reasonable to existing PCG Shareholders ("Shareholders"). This report will be included in the NOM in relation to the Proposed Transaction to assist PCG Shareholders to evaluate the Proposed Transaction.

Whilst we understand that as our report will be publicly available and therefore also available to access by Class B Unitholders and XRPU Holders, our report has not considered any specific factors or requirements of these investors as it has only been prepared for the benefit of existing PCG shareholders.

Further details of the purpose of this report are set out in Section 2 of our detailed report.

4. Basis of evaluation

XRPU Redemption

In order to assess whether the XRPU Redemption is fair and reasonable to Shareholders we have:

- ◆ Assessed it as fair if the XRPU Settlement Amount is less than or equal to the fair market value of the XRPUs
- ◆ Assessed it as reasonable if it is fair, or if despite not being fair, the advantages to Shareholders outweigh the disadvantages

Class B Conversion

In order to assess whether the Class B Conversion is fair and reasonable to Shareholders we have:

- ◆ Assessed it as fair if the if the value of the PCG Shares (i.e. the financial benefit to be provided by PCG to the Class B Unitholders) is less than or equal to the value of interest in the Trust held by Class B Unitholders to be acquired by PCG ("Class B Trust Interest")
- ◆ 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 set out in Section 2 of our detailed report.

5. Assessment of Fairness

XRPU Redemption

Introduction

Based on the terms of the XRPUs, the potential payoff to XRPU holders could theoretically range between nil and \$US42 million over the remaining five-year term of the XRPUs.

Determining the expected redemption payment to XRPU holders, and therefore the fair market value of the XRPUs, requires an estimate of the projected NPBTA for each of the Treasury Alternatives Portfolio and the Northern Lights Alternatives Portfolio for each financial year up until the repayment date in 2021.

In order to estimate the value of the XRPU's in total we have utilised the discounted cash flow approach as the pay-out could occur at any period up until 2021 and may vary across periods. The discounted cash flow method can most accurately reflect the potential pay-out profiles of the instrument.

For the purpose of our analysis we have excluded the Raven and Aubrey investments as they have been, or are expected to be, sold prior to completion of the transaction. Furthermore, Nereus has been excluded from our analysis as there is significant uncertainty as to what if any returns will be earned by the Trust from this investment.

Cash flows

In order to estimate the NPBTA we have considered projections for the NPBTA for each of the boutiques in the Alternatives Portfolio prepared by PCG for each of the boutiques in Alternatives Portfolio as at 30 September 2016 for impairment testing purposes which have been approved by the PCG Board ("Management Projections"). Based on our discussions with management, we understand that there have been no significant changes in the expected NPBTA since that date for these boutiques and that the underlying businesses are trading in line with expectations.

For the purpose of our analysis we have also considered an alternate scenario which reflects less optimistic assumptions in respect of future inflows than the Management Projections ("Revised Scenario").

As the relative NPBTA between Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio (as opposed the absolute NPBTA for any particular boutique) is the key determinant of the value of the XRPU's, for the purpose of our analysis we have focused primarily on the aggregate NPBTA and the relative assumptions across the portfolios to assess the reasonableness of the overall analysis.

The key assumptions adopted in our analysis are set out in Section 5 of our detailed report.

In addition to the above, based on our review of the terms of the XRPU's and discussions with management of PCG we understand that there is a degree of ambiguity in respect of various interpretations of the Trust Deed including the definition of 'income' and treatment of additional funding provided by the Trust which was not envisaged at the time of the Merger. For example, the definition of 'income' and 'abnormals' as required in determining NPBTA are not precisely defined in the legal documentation for the XRPU's and the parties have different interpretation of appropriate adjustments to income to achieve this definition. Whilst we acknowledge the alternate view points on the definition of income, for the purpose of our analysis we have had primary regard to cash distributions to the trust in our analysis of relative contributions. However, we have also considered the impact on the assessment having regard to alternate definitions of income and presented this as an alternate scenario ("Downside Scenario").

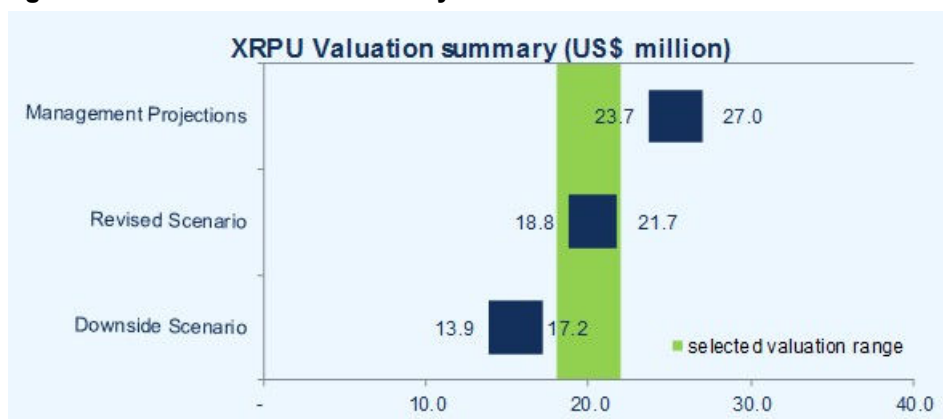
Discount rate

As the pay-out for the XRPU's is dependent on the future earnings for the Alternatives Portfolio we have applied a discount rate of 15% to 20% for the purpose of our analysis to reflect the risk associated with the earnings projections utilised in our analysis.

Conclusion

A summary of our analysis is set out below:

Figure 1: XRPU Valuation Summary



Source: Leadenhall analysis

In addition to our analysis above, in selecting an appropriate range of values and assessing whether the XRPU Redemption is fair, we have also considered the following factors:

- ◆ Whilst the transaction is deemed a related party transaction for the purpose of the ASX Listing Rules, due to the opposing interests in the outcome of the transaction between PCG and the XRPU holders, the negotiation process was conducted on arm's length terms with perceived concessions provided by both parties. This process led to an agreed price of \$US21 million for the XRPUs
- ◆ Certain factors have not been explicitly factored into the above analysis which could increase the value of the XRPUs, namely:
 - the NPBTA does not include any contribution for Nereus (or a deduction to the redemption price for additional capital commitments funded by the Trust) as any returns to the Trust are largely dependent on the sale of certain early-stage solar projects in India which is inherently uncertain. To the extent this investment contributes to the income of the Trust prior to 2021 this would increase the likelihood of a pay-out in excess of the XRPU Settlement Amount
 - Roc Partners is the only remaining boutique in the Treasury Alternatives Portfolio. To the extent this interest is sold during the term of the XRPUs, this would increase the likelihood of a pay-out in excess of the XRPU Settlement Amount
 - Blackcrane and EAM have had significant new inflows in recent months which represent a significant proportion of existing assets under management ("AUM"). Whilst AUM inflows have not been assumed to persist at these levels in the NPBTA projections we have utilised, there is the potential that these new inflows could provide momentum to the business which may result in further inflows of this magnitude
- ◆ The ambiguity in respect of the precise legal interpretation of a number of aspects of the XRPUs could impact the assessment of the timing and quantum of any payment to be made. It is possible that the matter could be subject to court proceedings prior to any redemption in the absence of the XRPU Redemption
- ◆ A pay-out of some magnitude is likely over the term of the XRPUs and the amount could exceed the Redemption Price

Having regard to our scenario analysis and the above factors we have selected a valuation range of \$US18 million to \$US22 million for the XRPUs.

We have assessed whether the XRPU Redemption is fair by comparing our assessed fair market value of the XRPUs (being the value of the benefit being provided to PCG) to the net present value of the XRPU Settlement Amount (being the value of the benefit being provided by PCG) as set out in the table below.

Table 1: Assessment of fairness – XRPU Redemption

US'm	Low	High
Fair market value of XRPUs	18.0	22.0
XRPU Settlement Amount (net present value)	19.8	21.0
Net benefit received (provided) by PCG	(1.8)	1.0

Source: Leadenhall analysis

Note: Low end of consideration reflects present value impact as there remains some uncertainty as to the settlement date for the redemption. The low end assumes a settlement date of March 2018 and a discount rate of 6% reflecting the credit risk of PCG

Since the fair market value of the consideration to be paid by the Trust (and therefore PCG) is within the assessed range of fair market value of the XRPUs, the XRPU Redemption is fair to PCG shareholders.

Fairness assessment – Class B Conversion

Introduction

In order to assess whether the Class B Conversion is fair we have considered whether the value of the PCG Shares (being the financial benefit provided by PCG) is equal to or less than the value of the Class B Trust Interest (being the value of the financial benefit received by PCG).

As noted above, the interest in the Trust is effectively the only asset of PCG. As the Class B units have an almost identical exposure to the returns of the Trust (based on their pro-rata interest) the value of both PCG shares and Class B units are intrinsically linked.

The assessment of fairness in this circumstance is therefore a relative consideration of the value of the PCG shares to be issued to Class B Unitholders compared to the interest in the Trust currently held by Class B Unitholders which will be acquired by PCG.

Fair market value of Class B Units acquired

In order to estimate the fair market value of the Class B Trust Interest to be acquired by PCG we have:

- ◆ Estimated the fair market value of 100% of the Trust based on the trading price of PCG's shares prior to the announcement of the Proposed Transaction.
- ◆ Assessed the value of the interest in the Trust currently held by Class B Unitholders based on the pro-rata interest in the Trust
- ◆ Considered whether any premium for control should be applied to the units to be acquired by PCG. For the purpose of our analysis we have applied a control premium of nil to 5% to reflect that PCG is effectively moving from joint control to majority control of the Trust.

The results of this analysis are summarised below:

Table 2: Assessed value of Class B Trust Interest acquired by PCG

A\$m	Low	High
Assessed value of the Trust		
Assessed value per PCG share	\$4.00	\$4.00
PCG shares on issue (million)	28.1	28.1
Market capitalisation of PCG		
PCG interest in the Trust	65.2%	65.2%
Implied value of the Trust (100%)		
Class B interest in the Trust	34.9%	34.9%
Class B unitholders interest in the Trust		
Control premium (from joint to full control)	0.0%	5.0%
Benefit received by PCG		
	60.2	63.2

Source: Leadenhall analysis

Note: All figures in this report are subject to rounding

Based on the above analysis, we have estimated the benefit to be received by PCG, being the interest in the Trust currently held by Class B Unitholders, to be between \$60 million to \$63 million.

Fair market value of PCG Shares issued

In analysing the value of the PCG Shares we have not prepared any intrinsic valuation of PCG (or any of the underlying boutiques) since both the PCG Shares to be issued and the Class B Trust Interest to be acquired by PCG are essentially instruments with exposure to the same underlying asset being the Trust. As a result, for the purpose of our analysis we have:

- ◆ Utilised the 100% value of the Trust determined above as the starting point
- ◆ Determined the value of the interest in PCG to be acquired by Class B Unitholders on a pro-rata basis based on expected shareholding in PCG of Class B Unitholders if the transaction proceeds (being 13.7 million shares which represents an interest in PCG of approximately 32.8³%)
- ◆ Applied a discount of between 0% to 5% to reflect the reduced liquidity of these shares relative to ordinary PCG shares over the six-month lock-up period

Our assessed value based on these assumptions is summarised in the table below

Table 3: Assessed value of PCG Common shares issued to Class B Unitholders

A\$m	Low	High
Implied value of the Trust and PCG (100%)	172.7	172.7
Class B interest in PCG post transaction (%)	32.8%	32.8%
Class B interest in PCG post transaction (\$)	56.6	56.6
Premium (discount) for size of stake issued	0.0%	0.0%
Liquidity discount	-5.0%	0.0%
Total benefit provided by PCG	53.7	56.6

Source: Leadenhall analysis

Conclusion on fairness

We have assessed whether the Class B Conversion is fair by comparing the value of the PCG Shares (i.e. the financial benefit to be provided by PCG to the Class B Unitholders) is equal to or less than the value of the Class B Trust Interest (being the value of the benefit being provided to PCG) as summarised below:

Table 4: Assessment of fairness – Class B Conversion

A\$m	Low	High
Fair market value of PCG Shares to be issued	53.7	56.6
Fair market value of B Class Interest in the Trust	60.2	63.2
Net benefit received by PCG	6.4	6.6

Source: Leadenhall analysis

Since the financial benefit provided by PCG is below the assessed range of values of the consideration received by PCG, the Class B Conversion is fair to Shareholders.

The above analysis only considers the financial impact to PCG shareholders and therefore does not include any benefit to Class B Unitholders as a consequence of the enhanced liquidity of their investment or any other factors.

We note that our conclusion on fairness is not impacted by the assumptions adopted in respect of the assessed value of a PCG Share nor the other assumptions we have made in respect of the discount for lack marketability for the shares to be issued to Class B Unitholders or the benefit of control afforded to PCG as a consequence of the conversion. Furthermore, whilst the transaction is deemed a related party transaction for the purpose of the ASX Listing Rules, due to the opposing interests in the outcome of the transaction between PCG and the Class B Unitholders, the negotiation process was conducted on arm's length terms with perceived concessions provided by both parties.

³ Total shares expected to be on issue is 41.8 million being 28.1 million on issue currently and 13.7 million to be issued to Class B Unitholders

6. Evaluation of reasonableness

Introduction and summary

We have defined the XRPU Redemption as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. Similarly, we have defined the Class B Conversion as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal.

Since we have assessed both the XRPU Redemption and the Class B Conversion as fair they are both reasonable. However, we have also considered the following advantages and disadvantages to Shareholders as set out below.

Table 5: Summary of reasonableness factors

	Advantages	Disadvantages
Proposed Transaction as a whole	<ul style="list-style-type: none"> ◆ In line with stated intention and investor feedback ◆ Likely to result in re-rating of PCG securities ◆ Increased market capitalisation ◆ Reduces the potential for conflicts of interest 	<ul style="list-style-type: none"> ◆ Potential for additional tax to be payable by PCG in the future ◆ May create an overhang in PCG shares
XRPU Redemption	<ul style="list-style-type: none"> ◆ Facilitates the Class B Conversion ◆ Provides certainty in respect of timing and quantum of redemption payment ◆ Eliminates the potential for further distraction and legal issues in respect of the XRPUs ◆ Reduced gearing for the Trust 	<ul style="list-style-type: none"> ◆ Consideration may exceed current contractual redemption price in certain scenarios
Class B Conversion	<ul style="list-style-type: none"> ◆ Provides PCG with control of the Trust (without paying a control premium) ◆ Mitigates potential for further dilution of existing PCG shareholders in the future 	<ul style="list-style-type: none"> ◆ Conversion ratio is less favourable to PCG shareholders compared to the original terms of the Merger which envisaged a conversion ratio of 1.2:1 up to 2019

Source: Leadenhall analysis

Further details of the above factors are set out in Section 7.

7. Conclusion

We have assessed both the XRPU Redemption and the Class B Conversion as fair and reasonable to PCG Shareholders.

Our evaluation has considered PCG shareholders as a whole. We have not considered the effect of the Proposed Transaction or any elements thereof on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Class B Conversion and/or the XRPU Redemption are fair and reasonable. If in doubt, investors should consult an independent financial adviser about the impact on their specific financial circumstances.

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

Yours faithfully



Dave Pearson
Director



Richard Norris
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 \$45,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

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.

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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.

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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.

8 February 2017

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1 TERMS OF THE PROPOSED TRANSACTION

1.1 Background to Proposed Transaction

In November 2014 Treasury Group and Northern Lights completed the Merger to create a diverse international portfolio of boutique fund managers. As a result of the Merger, a new Australian domiciled trust was created to hold the investments in the boutique fund managers previously held by Treasury Group and Northern Lights. The Trust was created as a joint venture among PCG and Northern Lights and BNP Paribas Capital Partners Participations (as an investor in Northern Lights prior to the Merger).

As a result of the Merger, PCG's only asset is its interest in the Trust. PCG and Northern Lights hold their interest in the Trust through a number of instruments:

- ◆ PCG was issued Class A Units by the Trust which represented approximately 61.22% of the total units of the Trust on issue at the time of the Merger. Class A Units are entitled to one vote per unit, rank equally with Class B Units and are entitled to distributions from the Trust broadly in line with the economic interest in the Trust
- ◆ Northern Lights was issued Class B Units and Class B-1 Units which represented a 38.78% interest in the Trust at the time of the Merger. Class B Units are entitled to one vote per Unit and rank equally with Class A Units and are entitled to distributions from the Trust broadly in line with the economic interest in the Trust. Class B Units are exchangeable (at the holder's election) to PCG common shares at certain fixed ratios as described in Section 1.2.2 below
- ◆ The Trust also issued the XRPUs to the Class B Unitholders

PCG is in the process of restructuring the business operations with the overall aim of simplifying PCG's corporate structure and refining the line-up of asset managers within the business. As part of this process, PCG has held discussions with various investors and many have expressed a desire for a simplified corporate structure which lead to the negotiation of the Proposed Transaction as further described in Section 1.3 below.

1.2 Terms of the instruments

1.2.1 XRPUs

As the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio included relative early stage boutiques that were difficult to agree commercial pricing for at the time, conditional vendor finance, with a face value of \$US42 million in the form of the XRPUs, was issued.

The XRPUs are payable in the event the relative performance, in terms of the NPBTA of the Northern Lights Alternatives Portfolio relative to the NPBTA of the Treasury Alternatives Portfolio exceeds the 'Northern Lights Threshold Amount'. The payment is subject to a clawback provision that would cease to apply so long as a 'Northern Lights Threshold Event' occurs, defined as happening when a 'Northern Lights Threshold Amount' exceeds a defined 'Repayment Amount.'

The 'Northern Lights Threshold Amount' for a particular financial year is the aggregate NPBTA for the Northern Lights Alternatives Portfolio less the aggregate NPBTA of Treasury Alternatives Portfolio multiplied by 12.75. The Northern Lights Threshold Event occurs if the Northern Lights Threshold Amount exceeds the 'Repayment Amount'.

The Repayment Amount is equal to the face value of the XRPUs (\$42 million) less the proceeds from the sale of any securities owned by the Trust in respect of the Northern Lights Alternatives Portfolio (net of any taxes, expenses or other related costs) less the total carried interest and performance fees received by the Trust from the Northern Lights Alternatives Portfolio.

The Trust Deed does not define what is considered to be 'abnormal' or 'non-recurring' in the context of the NPBTA calculation. Therefore, the treatment of certain items such as impairment charges, capital repayments from investee companies and other items is not clear.

At the time of the Merger, the obligation for the Trust was to redeem the XRPU's at par as soon as practical after completion of the Merger and no later than the initial maturity date of the XRPU's, 24 November 2016 ("Initial Maturity Date") and no later than the repayment date of the XRPU's being 24 November 2021 ("Repayment Date"). In the event that the XRPU's are wholly or partially redeemed and the Threshold Event does not occur by the Repayment Date, the holders would be required to repay all or a portion of the redemption price, plus financing charges.

If at any point the Trustee board determines the Northern Lights Threshold Event is unlikely to be achieved they can defer redemption to earlier of:

- ◆ 12 months from prior extension
- ◆ Northern Lights Threshold Event
- ◆ The Repayment Date

Whilst the intention was to redeem the XRPU's at par prior to 24 November 2016, due to the uncertainty as to when or if the Northern Lights Threshold Amount would be satisfied, the board of the Trustee announced in September 2016 that the payment of redemption price for the XRPU's would be deferred until at least November 2017 as it was deemed that the Northern Lights Threshold Event was unlikely to occur within the next 12 months. As a result, no payments to XRPU holders have been made to date.

The redemption price of the XRPU's ("XRPU Redemption Price") is based on the face value of \$US42 million less adjustments for the following:

- ◆ Any unfunded capital commitments (as set out in the Trust Deed) at the time of redemption. The Trust Deed envisaged \$US1.7 million in unfunded commitments for the Northern Lights Alternatives Portfolio at the time of the Merger
- ◆ All interest and other costs incurred in any debt funding related to the redemption of the XRPU's prior to the Initial Maturity Date from the earlier of the maturity date of the relevant facility or the Repayment Date.

As no funding costs have been incurred in relation to the XRPU's to date, the XRPU Redemption Price is currently \$US40.3 million.

To the extent the XRPU's are redeemed and the Northern Lights Threshold Event does not occur, XRPU holders may be required to repay the Repayment Amount.

The Trust has recently sold its interest in Raven for total net proceeds of up to \$US10 million which includes an earn-out based on future revenues generated of up to \$US3.5 million. No carried interest or performance fees have been earned by the Trust from the Northern Lights Alternatives Portfolio to date. As a result the Repayment Amount is currently \$US35.5 million and will reduce to \$US32 million to the extent that the earn-out payment is made.

When the Northern Lights Threshold Amount equals or exceeds the 'Repayment Amount' the 'Northern Lights Threshold Event' has occurred and there is no obligation for XRPU holders to repay any amounts redeemed.

If the Northern Lights Threshold Event does not occur prior to the Repayment Date, the net redemption price is determined as follows:

- ◆ XRPV Redemption Price (currently \$US40.3 million as defined above)
- ◆ *less* the Repayment Obligated Amount ("ROA") where the ROA equals:
 - Repayment Amount (currently \$US35.5 million)
 - Less: Northern Lights Threshold Amount (at November 2021)
 - = Repayment Obligation Base Amount ("ROBA")**
 - Plus:* any RPU debt financing charges unpaid (after exhausting the RPU reserve)
 - Plus: interest (at 10%) on the ROBA between redemption date and Repayment Date
 - = ROA**

Essentially if the Northern Lights Threshold Event does not occur prior to the Repayment Date the Redemption Price is reduced by the amount by which the Repayment Amount is not met by the Northern Lights Threshold Amount in the final year of the calculation.

1.2.2 Class B units

As discussed in Section 1.1, as part of the formation of the Trust, Treasury Group were issued Class A Units and Northern Lights were issued with Class B Units and Class B-1 Units.

The key terms of the Class B Units include:

- ◆ Entitled to one vote per Class B Unit which ranks equally with Class A Units
- ◆ Exchangeable (at the holder's election) to PCG common shares at the following fixed ratios:
 - Up to 3 years from Completion (i.e. November 2017), 1.0 PCG share for every 1.5 Class B Units
 - From November 2017, 1.0 PCG share for every 1.2 Class B Units
 - In the event of a takeover for PCG, upon the achievement of a secondary listing of PCG Shares, 1.0 PCG share for each Class B Unit, or
 - After November 2019, 1.0 PCG share for each Class B Unit
- ◆ Entitled to distributions from the Trust broadly in line with the economic interest in the Trust

Vested Class B-1 Units are also exchangeable into PCG common shares. Vesting of the Class B-1 Units causes an equal number of existing Class B units to be reduced. There is therefore no impact on Class A unitholders economic interest in the Trust as a consequence of the vesting of Class B-1 units.

1.3 Proposed Transaction

The board of PCG has previously announced to the market that the current financial structure of the group is complex and cumbersome to operate and the board was therefore working on a simplification process in order to reduce management time and expense and streamline the capital allocation and strategic decision making processes for the business. To this end, PCG has proposed to simplify the group structure by:

- ◆ Redeeming the XRPU's for cash consideration
- ◆ Converting Class B units to PCG shares

If the XRPU Redemption is approved and the Class B Conversion is not approved, the XRPU Redemption will go forward. However, if the Class B Conversion is approved and the XRPU Redemption is not approved, neither will go forward.

1.3.1 XRPU Redemption

It is proposed that the XRPU's will be redeemed by the Trust in full for an aggregate amount of \$US21 million in cash (PCG share is approximately \$US13.6 million) with the payment allocated among the then existing XRPU holders on a pro rata basis. Other terms include:

- ◆ The settlement date shall be on or before 31 March 2018 ("Settlement Date")
- ◆ The XRPU holders will not be obligated to pay any financing or other costs or charges in relation to the payment of the XRPU Settlement Amount
- ◆ The XRPU Settlement Amount shall be deemed to be in full settlement of the XRPU's and such amount shall not be subject to any claw back, offset or other repayment obligation by the XRPU holders. As there is no claw back, the XRPU holders will not be obligated to pay any financing or other costs or charges in relation to the payment of the XRPU Settlement Amount
- ◆ If the Trust fails to pay the XRPU Settlement Amount on or before the Settlement Date, the Trust will be obligated to pay to the XRPU holders interest quarterly at a rate of:
 - 10% per annum for the period from the Settlement Date through 30 September 2018;
 - 12% per annum for the period 1 October 2018 through 31 March 2019; and
 - Increasing by 2% per annum in six month intervals thereafter beginning with 14% per annum for the period 1 April 2019 through 30 September 2019

Further details of the XRPU Redemption are set out in the NOM.

1.3.2 Class B Conversion

As part of the Proposed Transaction, the existing Class B units and vested Class B-1 Units will be exchanged for PCG shares at a ratio of 1.1 Class B/Class B-1 Units for each 1 PCG share. On exchange, a number of Class B-1 Units will vest. An equal number of Class B Units will be reduced such that the aggregate number of PCG shares issued to the relevant holder does not change and therefore there is no impact on or reduction in the Class A unitholder's economic interest in the Trust as a consequence of Class B-1 units vesting B-1 units vesting.

Other terms include:

- ◆ The exchange will take place on or before 31 March 2017 ("Exchange Date")
- ◆ PCG Shares will be subject to a lock-up period ending 6 months following the Exchange Date. If the settlement of the XRPU Redemption occurs on or before 30 June 2017, the PCG Shares be subject to a lock-up period of 12 months
- ◆ The Trust will consolidate on a pro rata basis the issued and outstanding A and B units of the Trust so that the number of Class A Units issued as of the Exchange Date and any subsequent exchange dates is equal to the number of PCG ordinary shares issued and outstanding on such date(s).

Further details of the Class B Conversion are set out in the NOM.

2 SCOPE

2.1 Purpose of the Report

Listing Rule 10.1 requires a listed entity to obtain shareholders' approval before it acquires a substantial asset from a related party. The Notice of Meeting sent to shareholders advising them of such a transaction must include a report from an independent expert stating whether the transaction is fair and reasonable to the Shareholders.

An asset is considered to be substantial if its value, or the consideration being paid for it, is 5% or more of the equity in the listed entity, as set out in its latest accounts lodged with the ASX.

PCG's portion of the XRPU Settlement Amount represents approximately 7% of the net assets of PCG at 30 June 2016 of \$187 million and is therefore deemed a substantial asset of PCG. Furthermore, the implied consideration for the Class B Conversion (being approximately 32.8% of the value of the Trust), would also represent a substantial asset of PCG.

One of the parties that PCG will be acquiring Class B units and redeeming XRPU from is Northern Lights Capital Group which is currently controlled by Paul Greenwood, a director of PCG. Furthermore, Jeff Vincent, a director of PCG, is also CEO of Laird Norton Company, which directly and through affiliates controls LNC Investments Co., LLC ("LNC"), which is another member of Northern Lights. As a result Paul Greenwood, LNC and Northern Lights are deemed to be related parties in accordance with the ASX Listing Rules. Accordingly, both the XRPU Redemption and the Class B Conversion are with a related party.

As a result, the XRPU Redemption and the Class B Conversion must be approved by PCG Shareholders. The independent directors of PCG have therefore requested Leadenhall to prepare an IER in accordance with Listing Rule 10.1 advising whether, in our opinion, the XRPU Redemption and the Class B Conversion individually, and the Proposed Transaction as a whole, is fair and reasonable to Shareholders. This report is to accompany the Notice of Meeting to be sent to shareholders of PCG in order to assist the Shareholders in their decision whether to vote for, or against, the Proposed Transaction.

2.2 Basis of Evaluation

Overview

The ASX Listing Rules do not define the term 'fair and reasonable' and provide no 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 ("RG111") which states that there should be separate assessments of whether a transaction is 'fair' and whether it is 'reasonable'. Accordingly, we have considered the concepts of "fairness" and "reasonableness" separately as described below.

Fairness

According to RG 111.57 *'a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity'*. This comparison should be made *'assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.'*

Having regard to the above guidance:

- ◆ In order to assess whether the XRPU Redemption is fair we have assessed it as fair if the XRPU Settlement Amount is less than or equal to the fair market value of the XRPU
- ◆ In order to assess whether the Class B Conversion is fair we have assessed it as fair if the if the value of the PCG Shares (i.e. the financial benefit to be provided by PCG to the Class B Unitholders) is less than or equal to the value of interest in the Trust held by Class B Unitholders to be acquired by PCG

We have assessed the values of the various instruments involved in the Proposed Transaction 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.

We consider this to be consistent with the definition of value contained in RG 111.57 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 PCG does not include any special value in accordance with RG111.

Reasonableness

In accordance with RG111, we have defined the XRPU Redemption and the Class B Conversion as being reasonable if it is fair, or if despite not being fair, Leadenhall believes that there are sufficient reasons for Shareholders to vote in favour of the proposal. We have therefore considered whether the advantages to Shareholders of the Proposed Transaction outweigh the disadvantages. To assess the reasonableness of the Proposed Transaction we have considered the following significant factors recommended by RG111.62:

- ◆ The impact of the transaction on the financial situation and solvency of PCG
- ◆ Opportunity costs
- ◆ The alternative options available to PCG and the likelihood of those options occurring
- ◆ The bargaining position of PCG
- ◆ Whether there is selective treatment of any security holder, particularly the related party
- ◆ Any special value of the transaction to PCG

We have also considered the other significant advantages and disadvantages to Shareholders of each transaction.

2.3 Individual Circumstances

We have evaluated the Proposed Transaction for the 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 Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of this Proposed Transaction on their specific financial circumstances.

3 PROFILE OF PCG

3.1 Introduction

PCG invests in global asset management businesses through its investment in the Trust. PCG has a portfolio of 17 boutiques in the US, UK, Australia and India. All of which are specialist in nature and manage assets for institutional and individual clients around the world.

A summary of the current investments of PCG, as well as the current AUM and investment strategy is summarised below:

Table 6: Summary of investments as at 30 June 2016

	Interest	AUM (\$'m)	Investment Strategy
Core Boutiques			
Aether Investment Partners	100%	1,510	Real assets fund of funds
Aperio	24%	20,510	Passive management, Smart Beta
Investors Mutual LTD	40%	6,870	Value focused, Australian equities
RARE	10%	8,190	Global listed infrastructure
Seizert Capital Partners	100%	4,040	Small, Mid and Large Cap Core and Value US equity
Alternatives Portfolio			
Blackcrane Capital	25%	350	Long-only, concentrated international equity
EAM Global Investors	16%	440	International/Emerging Markets Small and micro-Cap
Goodhart Partners	18.8%	620	Japan Small/All-Cap Equity, Emerging Markets Equity
Raven Capital Management	25%	760	PE firm focused on asset backed lending
Nereus	50%	n/a	Alternative Energy Infrastructure in India
ROC Partners	18% ⁴	5,040	Asia Pacific and Australian pooled funds
Other Boutiques			
Alpha Shares	76%	77	China-focused Indexes
GQG Partners	5%	90	Emerging, global and international equities
Celeste Funds Management	39%	393	Australian small cap equities
Freehold Investment Management	27.5%	427	Australian REITs and unlisted properties
Strategic Capital Investors	60%	104	Hedge fund seeding and acceleration

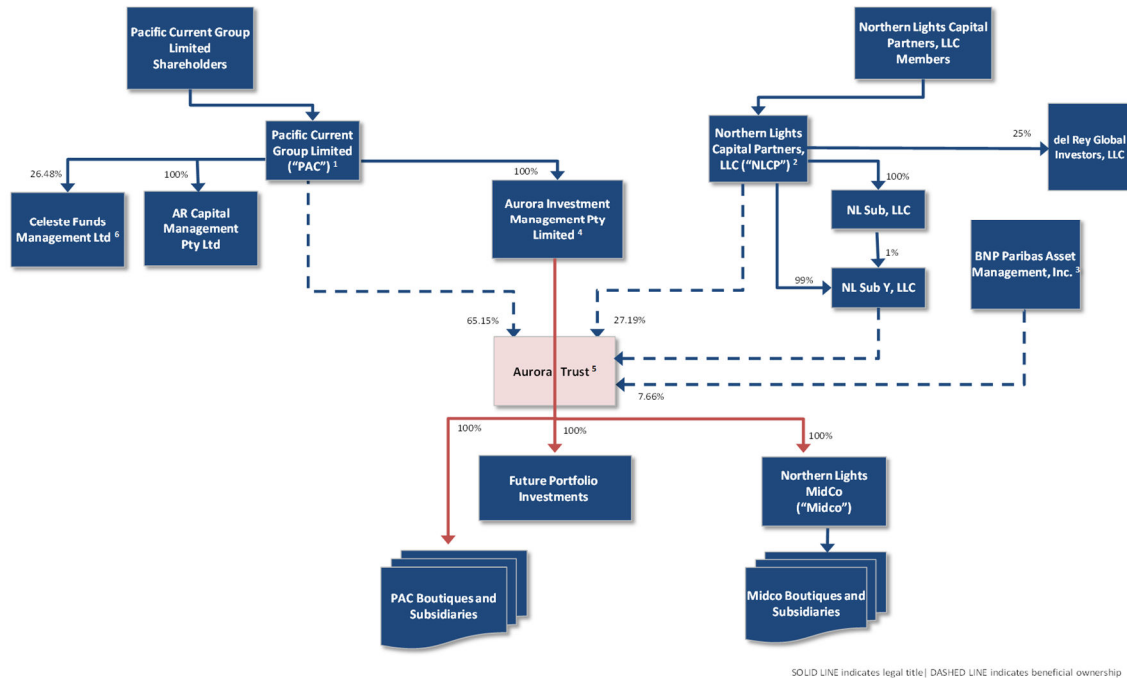
Source: PCG

⁴ The Trust has a 17.59% ownership in ROC. The Trust participates only in 50% of the performance fees generated and will start to receive dividends from once a subordinated loan is fully repaid

3.2 Legal Structure

The corporate structure of PCG is set out below:

Figure 2: Group structure as at 30 June 2016



Source: PCG

Key points in respect of the above:

- ◆ Legal title to Aurora Trust assets are held 100% by Aurora Investment Management Pty Limited, as Trustee on behalf of the beneficiaries of the Trust.
- ◆ Legal title in Aurora Investment Management Pty Limited ("AIML"), the trustee of Aurora Trust, is held 100% by PCG. No profit is made by AIML
- ◆ PCC holds a direct interest in Celeste Funds Management Ltd and AR Capital Management, however, all of the financial benefits of this investment flow to the Trust through a synthetic instrument

3.3 Directors and Senior Management

The directors and key management personnel of PCG include:

Table 7: Directors and key management personnel

Name	Title
Michael Fitzpatrick	Chairman
Paul Greenwood	Global Chief Investment Officer (CIO) and President, North America
Peter Kennedy	Non-executive Director
Melda Donnelly	Non-executive Director
Jeff Vincent	Non-executive Director
Giles Guerin	Non-executive Director
Tony Robinson	Executive Director
Joseph Ferragina	Chief Financial Officer and Chief Operating Officer

3.4 Financial Performance

The audited statements of financial performance for the two years ended 30 June 2015 and 2016 are set out in the table below.

Table 8: Financial performance

P&L (\$m)	FY16	FY15
Revenues	5.6	6.7
Net Gain on Investments	-	198.8
Expenses		
Exemployee Expenses	(4.1)	(5.3)
Other Expenses	(1.1)	(2.0)
Share of Net Losses of Equity Accounted Investments	(78.5)	(4.6)
EBIT	(78.1)	193.6
Income Tax Benefit/(Expense)	29.8	(57.9)
Net profit after tax	(48.3)	135.7

Source: PCG

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

- ◆ The results for FY15 were impacted by the completion of the Merger which resulted in a revaluation of all the existing boutiques to the values implied by the terms of the Merger. This resulted in a significant one-off gain
- ◆ During FY16 Seizert experienced AUM losses. Revised assumptions about expected performance and timing of flows for Seizert resulted in a reduction of the carrying value of Seizert within the Aurora Trust of \$85 million. The carrying values at Raven, Nereus, Alphashares and Celeste were also reduced by \$7.6 million, \$11.3 million, \$3 million and \$4.8 million, respectively
- ◆ In October 2015 PCG completed the sale of the majority of its interest in RARE for \$112 million in upfront cash consideration and an earn-out dependent on RARE's performance.

3.5 Financial Position

The audited statements of financial position as at 30 June 2015 and 2016 are set out in the table below.

Table 9: Financial position

Balance Sheet (\$m)	FY16	FY15
Current assets		
Cash and cash equivalents	3.0	1.1
Trade and other receivables	11.9	10.0
Total current assets	14.9	11.1
Non-Current assets		
Investments in joint ventures/associates	210.1	290.2
Total non-current assets	210.1	290.2
Total assets	225.0	301.3
Current liabilities		
Trade and other payables	(2.0)	(2.0)
Provision for income tax	(14.2)	-
Provisions	(0.2)	(0.3)
Total current liabilities	(16.4)	(2.3)
Non-current liabilities		
Provisions	(0.2)	(0.2)
Deferred tax	(21.0)	(61.9)
Total non-current liabilities	(21.2)	(62.1)
Total liabilities	(37.6)	(64.4)
Net assets	262.6	365.7
Equity		
Issued capital	(74.6)	(69.5)
Reserves	(21.4)	(14.2)
Retained Earnings	(91.5)	(153.1)
Total Equity	(187.5)	(236.8)

Source: PCG

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

- ◆ The principal asset of PCG is its investment in the Trust
- ◆ Other working capital and deferred tax balances are not material

3.6 Capital Structure and Shareholders

PCG currently has 28.1 million ordinary shares on issue. The substantial shareholders of PCG and their percentage shareholdings as at 9 September 2016 are set out in the table below.

Table 10: Top 20 shareholders

Name	Shares held	% interest
Squitchy Lane Holdings	2,401,500	8.54%
RBC Investor Service Australia Nominees Pty Limited	1,752,129	6.23%
RBC Investor Service Australia Nominees Pty Ltd	1,738,807	6.18%
National Nominees Limited	1,147,582	4.08%
BNP Paribas Noms Pty Ltd	1,068,459	3.80%
Citicorp Nominees Pty Limited	985,762	3.50%
J P Morgan Nominees Australia Limited	686,180	2.44%
Mr Timothy Gerard Ryan	564,573	2.01%
BNP Paribas Capital Partners	487,804	1.73%
HSBC Custody Nominees (Australia) Limited	416,463	1.48%
MR Michael Brendan Patrick De Tocqueville	400,000	1.42%
Glenn Hargraves Investments Pty Ltd	375,000	1.33%
Banson Nominees Pty Ltd	370,854	1.32%
Netwealth Investments Limited	325,411	1.16%
Kattag Holdings Pty Ltd	320,000	1.14%
Invia Custodian Pty Limited	254,512	0.90%
HFM Investments Pty Ltd	250,000	0.89%
Top Pocket Pty Ltd	250,000	0.89%
29th Marsupial Pty Ltd	172,591	0.61%
Mardom Pty Ltd	141,400	0.50%
Total for top 20	14,109,027	50.16%
Other	14,106,928	49.84%
Total	28,125,955	100.00%

Source: PCG

In addition to the ordinary shares on issue there are several classes of options and performance rights that have been issued to members of the senior management team and the Board.

3.7 Share Price Performance

The figure below sets out the share price movement and volumes of shares traded for PCG since December 2014.

Figure 3: Share price performance



Source: FactSet

We note the following in relation to the share price of PCG over the two years:

- ◆ The share price initially increased after the announcement and completion of the Merger in late 2014
- ◆ In July 2015, PCG announced the sale of the majority of their interest in RARE, resulting in a small increase in the share price
- ◆ In December 2015 PCG announced the acquisition of Aperio, causing a relatively sustained increase in the share price
- ◆ In March 2016 PCG announced the resignation of the then CEO, Andrew McGill, pushing down the share price to just above \$4 per share
- ◆ Since the announcement of the Proposed Transaction the share price has increased significantly from around \$4 per share to above \$5 per share

4 VALUATION METHODOLOGY

4.1 Available Valuation Methodologies

To assess the fair market value of the XRPUs, the Class B Unitholders interest in the Trust and the PCG shares to be used to Class B Unitholders, we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- ◆ The discounted cash flow method
- ◆ The capitalisation of future maintainable 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.

4.2 Selection of Valuation Methodology

4.2.1 XRPUs

Based on the terms of the XRPUs, the potential payoff to XRPUs holders could theoretically range between nil and \$US42 million over the remaining five year term of the XRPUs.

The fair market value of the XRPUs will therefore be based on the expected pay-out or redemption amount and therefore requires an estimate of the projected NPBTA for each of the Treasury Alternatives Portfolio and the Northern Lights Alternatives Portfolio for each financial year up until the repayment date in 2021.

We have utilised the discounted cash flow approach as the pay-out could occur at any period up until 2021 and may vary across periods. The discounted cash flow method can most accurately reflect the potential pay-out profiles of the instrument.

4.2.2 Class B units and PCG shares

As noted above, the interest in the Trust is effectively the only asset of PCG. As the Class B units have an almost identical exposure to the returns of the Trust (based on their pro-rata interest) the value of both PCG shares and Class B units are intrinsically linked.

The assessment of fairness in this circumstance is therefore a relative consideration of the value of the PCG shares to be issued to Class B Unitholders compared to the Class B units in the Trust which will be acquired by PCG.

In order to estimate the fair market value of the Class B Unitholders interest in the Trust and the PCG shares issued as consideration, we have relied on recent share trading in PCG shares since:

- ◆ PCG is reasonably liquid with sufficient trading to provide a current reflection of the price of a share
- ◆ PCG is covered by a number of sell side research analysis and provides regular updates to the market regarding its prospects. Effectively, the market is well informed of PCG and its prospects.
- ◆ The fairness assessment for the Class B Conversion represents a relative value analysis and therefore our assessed value of a PCG share, or the Trust, does not impact our conclusion

5 VALUATION OF XRPUS

5.1 Approach

Determining the fair market value of the XRPUs requires determination of the following:

- ◆ Cashflows, derived from the instrument. In order to estimate the cash flows we have:
 - Projected relative NPBTA for the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio for each financial year up until the Repayment Date in 2021 in order to estimate the Northern Lights Threshold Amount
 - Estimated the Redemption Price and Repayment Amount for the XRPUs at each measurement date
- ◆ An appropriate discount rate

Our consideration for each of these factors discussed in more detail below.

5.2 Cash Flows

5.2.1 NPBTA

As the relative NPBTA (as opposed to the absolute NPBTA) is the key determinant of the cash flows to the holders, and therefore the value, of the XRPUs, for the purpose of our analysis we have focused primarily on the aggregate NPBTA and the relative assumptions across the portfolios to assess the reasonableness of the overall analysis.

In order to estimate the relative NPBTA for the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio we have considered projections for the NPBTA prepared by PCG for each of the boutiques as at 30 September 2016 for impairment testing purposes which have been approved by the PCG Board ("Management Projections"). Based on our discussions with management, we understand that there have been no significant changes in the expected NPBTA since that date for these boutiques and that the underlying businesses are trading in line with expectations.

The key assumptions adopted in the Management Projections include:

- ◆ **Assets under management inflows/outflows:** the Northern Lights Alternatives have projected future inflows/outflows based on the average monthly net inflows/outflows for the last 12 months as the basis for future inflows/outflows. Inflows and outflows for Treasury Alternatives are based on a business plan approved by the board of the boutiques
- ◆ **Market growth:** existing assets under management are anticipated to grow at a rate of 7.5% per annum which reflects that most of the underlying investments are equities
- ◆ **Fees/revenues:** in line with existing fee arrangements for each client type and/or product
- ◆ **Costs:** are expected to grow at 5% per annum

The Management Projections assume significant growth in AUM, EBITDA and distributions to the Trust for both the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio as summarised below:

Table 11: Summary of Management Case assumptions

	Northern Lights Alternatives	Treasury Alternatives
Summary metrics - Management Case		
AUM (CAGR from FY17 to FY21)	23.3%	5.0%
Revenue (CAGR from FY17 to FY21)	24.3%	8.7%
EBITDA (CAGR from FY17 to FY21)	31.9%	14.7%
EBITDA % (Average from FY17 to FY21)	45.5%	53.6%
Distributions to the Trust (CAGR from FY17 to FY21)	103.4%	188.5%

Source: PCG management, Leadenhall analysis:

We note that projecting NPBTA for these businesses (individually and in total) is subject to significant uncertainty since:

- ◆ The operating performance, and therefore the NPBTA, is influenced by a number of micro and macro factors such as market returns, timing and quantum of inflows as well as investor sentiment at particularly points in the cycle
- ◆ A number of the boutiques are private-equity style funds which are anticipating future fund raisings which may or may not occur and are difficult to predict reliably
- ◆ The capital structures include a number of liquidity preferences and other preferential returns to investors prior to distributions being made to the Trust which could impact the timing and quantum of future income generated by the Trust
- ◆ Generally speaking, the Alternative Portfolios have not met expectations since the Merger which may indicate projecting future earnings is challenging

As a result of these factors, for the purpose of our analysis we have also considered an alternate scenario for the Northern Lights Alternatives Portfolio as follows ("Revised Scenario):

- ◆ Certain investments, namely Blackcrane and EAM, have recently won significant mandates which represent a large proportion of the existing AUM. For Blackcrane an element of this growth has been forecast to recur in the projected inflows. As there may be a risk that inflows of this magnitude may not occur in the future we have considered the impact on NPBTA of excluding these inflows
- ◆ Assume 50% of the assumed inflow growth from organic sources for other boutiques
- ◆ Market growth of 5% per annum reflecting the volatility in equity markets

The key assumptions for the Revised Scenario are summarised below:

Table 12: Summary of Revised Scenario assumptions

	Northern Lights Alternatives	Treasury Alternatives
Summary metrics - Revised Case		
AUM (CAGR from FY17 to FY21)	15.2%	5.0%
Revenue (CAGR from FY17 to FY21)	16.9%	8.7%
EBITDA (CAGR from FY17 to FY21)	20.6%	14.7%
EBITDA % (Average from FY17 to FY21)	38.5%	53.6%
Distributions to the Trust (CAGR from FY17 to FY21)	86.2%	186.5%

Source: PCG management, Leadenhall analysis:

In addition to the above scenarios we have also considered a Monte Carlo Simulation based on the Revised Scenario. A Monte Carlo Simulation involves the use of a computer model to represent the potential pay-off outcomes of the XRPU's. A characteristic of the Monte Carlo Simulation is the generation of a large number of random samples from a specified probability distribution or distributions to represent the role of risk in the market. Monte Carlo simulates the path of the desired outcome (in this case the NPBTA) according to a probability distribution assumption. After a large number of simulations, the arithmetic average of the outcomes, discounted to the valuation date, is calculated to represent the value.

We have utilised a simulation which projects the future annual NPBTA for the Northern Lights Alternatives Portfolio and the Treasury Alternatives Portfolio (as well as the redemption payment to XRPU holders for each simulation) for the period to FY2021 across 10,000 simulations in order to ascertain an 'expected' outcome based on these simulations.

In addition to the above, based on our review of the terms of the XRPUs and discussions with management of PCG, we understand there exists a degree of ambiguity in respect of various interpretations of the Trust Deed including the definition of 'income' and treatment of additional funding provided by the Trust which was not envisaged at the time of the Merger. For example, the definition of 'income' and 'abnormals' as required in determining NPBTA are not precisely defined and the parties have different interpretations of appropriate adjustments to income to achieve this definition. Whilst we acknowledge the alternate view points on the definition of income, for the purpose of our analysis we have had primary regard to cash distributions to the trust in our analysis of relative contributions. However, we have also considered the impact on the assessment having regard to alternate definitions of income, in particular excluding revenues which could be classified as non-recurring in nature ("Downside Scenario").

We have not undertaken a review of the projections in accordance with AUS 804 – The Audit of Prospective Financial Information. Based on our analysis we have made adjustments to the forecast to present a more balanced view of possible future performance of the boutiques.

5.2.2 Redemption payment

Determining the expected pay-out to XRPUs holders also requires determination of the following:

- ◆ Redemption Price of the XRPUs which is currently \$US40.3 million as set out in Section 1.2.1. We have not allowed for any funding costs as a deduction from the Redemption Price as no debt funding costs have been incurred in respect of the XRPUs and the funding of any future payments may be funded with surplus cash or equity
- ◆ Repayment Amount currently \$US35.5 million which will reduce to \$US32 million to the extent that the earn-out payment for Raven is made

5.3 Discount rate

In determining an appropriate discount rate, we have considered the relative riskiness associated with the forecast cash flows of the underlying boutiques and the typical rates of return required by investors in early-stage companies and private equity investments with similar risks as the underlying boutiques as shown in the table below:

Table 13: Discount rate surveys

	Source	Final stage	Bridge/IPO
Stern School of Business	1	35-50%	25-30%
Harvard Business School	2	20-26%	16-23%
London Business School	3	20-34%	17-23%
Manigart et al	4	26-30%	n/a
Pepperdine University	5	19-33%	18-33%

Sources:

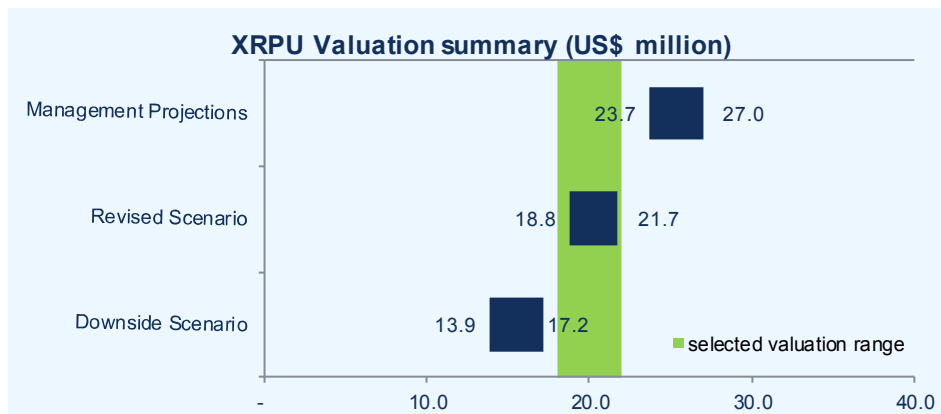
1. *Valuing Young, Start-up and Growth Companies: Estimation issues and Valuation Challenges*, Aswath Damodaran, Stern School of Business, New York University, May 2009
2. *Insights from the American Venture Capital Organisation*, Harvard Business School, 1991
3. *Venture Capital in the United Kingdom*, The London Business School, April 1994
4. *Determinants of required return in venture capital investments: A five country study*, Sophie Manigart et al, 2002
5. *Pepperdine Private Capital Markets Project: Capital Markets Report 2015*, Graziadio School of Business and Management

As the underlying boutiques are at the small end of companies that would undertake an IPO in the US and are more risky than typical pre-IPO businesses, since some of the boutiques have yet to make a profit and are relatively early stage, we believe a discount rate towards the lower end of Bridge/IPO rates would be appropriate. We have therefore selected a discount rate of 15% to 20%.

5.4 Valuation Conclusion

A summary of our analysis is set out below:

Figure 4: XRPV Valuation Summary



Source: Leadenhall analysis

In addition to our analysis above, in selecting an appropriate range of values for the XRPUs we have also considered the following factors:

- ◆ Whilst the transaction is deemed a related party transaction for the purpose of the Listing Rules, due to the opposing interests in the outcome of the transaction between PCG and the XRPV holders, the negotiation process was conducted on arm's length terms with perceived concessions provided by both parties. This process led to an agreed price of \$US21 million for the XRPUs
- ◆ Certain factors have not been explicitly factored into the above analysis which could increase the likelihood that the NLCP Threshold Event occurs (and therefore the value of the XRPUs) namely:
 - the NPBTA does not include any contribution for Nereus as any returns to the Trust are largely dependent on the sale of certain early-stage solar projects in India which is inherently uncertain. To the extent this investment contributes to the income of the Trust prior to 2021 this would increase the likelihood of the Northern Lights Threshold Event occurring, and therefore a pay-out in excess of the XRPV Settlement Amount
 - Roc Partners is the only remaining boutique in the Treasury Alternatives Portfolio. To the extent this interest is sold during the term of the XRPUs, this would increase the likelihood of the Northern Lights Threshold Event occurring, and therefore a pay-out in excess of the XRPV Settlement Amount
 - Blackcrane and EAM have had significant new inflows in recent months which represent a significant proportion of existing AUM. Whilst AUM inflows have not been assumed to persist at these levels in the NPBTA projections we have utilised, there is the potential that these new inflows could provide momentum to the business which may result in further inflows of this magnitude.
- ◆ The ambiguity in respect of the precise legal interpretation of a number of aspects of the instruments which could impact the assessment of the timing and quantum of any payment to be made. It is possible that the matter would be subject to court proceedings prior to any redemption in the absence of the XRPV Redemption.
- ◆ A pay-out of some magnitude is likely over the term of the XRPUs and the amount could exceed the Redemption Price

Having regard to our scenario analysis and the above factors we have selected a valuation range of \$US18 million to \$US22 million for the XRPUs.

6 VALUATION ANALYSIS FOR THE CLASS B CONVERSION

6.1 Approach

As noted above, the interest in the Trust is effectively the only asset of PCG. As the Class A and Class B units have an almost identical exposure to the returns of the Trust (based on their pro-rata interest) the value of both PCG shares and Class B units are intrinsically linked.

We have not prepared any intrinsic valuation of PCG (or any of the underlying boutiques) since the PCG Shares to be issued and the Class B Trust Interest to be acquired by PCG are essentially instruments with exposure to the same underlying asset, being the Trust. As a result, any change in the assessed value of the Trust will not have an impact on our conclusion.

In order to estimate the fair market value of the Class B Unitholders interest in the Trust and the PCG shares issued as consideration, we have therefore relied on recent share trading in PCG shares.

6.2 Fair market value of Class B Trust Interest

6.2.1 Introduction

In order to estimate the fair market value of the Class B units to be acquired by PCG we have:

- ◆ Estimated the fair market value of 100% of the Trust based on the current share price of PCG.
- ◆ Assessed the value of the interest in the Trust currently held by Class B Unitholders based on the pro-rata interest in the Trust
- ◆ Considered whether any premium for control applies to the units to be acquired by PCG

The results of this analysis are summarised below.

6.2.2 Fair market value of the Trust

We consider trading in PCG shares prior to the announcement of Proposed Transaction reflects an appropriate basis for the fair market value of a PCG share (and therefore the value of PCG's interest in the Trust) since:

- ◆ PCG is reasonably liquid with sufficient trading to provide a current reflection of the price of a share
- ◆ PCG is covered by a number of sell side research analysis and provides regular updates to the market regarding its prospects, etc.

We have determined the value of a PCG share (on a minority basis) to be \$4.00 per share based on recent trading in PCG shares as well as the volume weighted average price ("VWAP") over certain periods as follows:

Table 14: Share trading summary as at 22 December 2016

Most recent closing price	\$4.10
VWAP - 1 week	\$4.10
VWAP - 1 month	\$3.76
VWAP - 3 months	\$3.80

Source: Factset, Leadenhall analysis

We have used the PCG share price as a proxy for the implied value of the Trust since PCG has no significant assets or liabilities other than its investment in the Trust. Furthermore, all costs incurred by PCG are recovered from the Trust.

Based on the current number of PCG shares on issue 28.1 million and PCG's existing interest in the Trust 65%, the fair market value of 100% of the Trust, and Class B Unitholders current proportionate interest in the Trust is as follows:

Table 15: Assessed value of Class B interest in the Trust

A\$m	
Assessed value of the Trust	
Assessed value per PCG share	\$4.00
PCG shares on issue (million)	28.1
Market capitalisation of PCG	112.5
PCG interest in the Trust	65.2%
Implied value of the Trust (100%)	172.7
Class B interest in the Trust	34.9%
Class B unitholders interest in the Trust	60.2

Source: Leadenhall analysis

6.2.3 Control premium

Whilst PCG has a 65% interest in the Trust, PCG does not currently control the Trust as the decision-making process requires the agreement of PCG, Northern Lights and BNP. As a result, PCG currently accounts for its interest in the Trust as a joint venture arrangement despite having an economic interest greater than 50%.

The interest in the Trust acquired from the Class B Unitholders will therefore provide PCG with increased control of the Trust whereas the existing structure effectively provides PCG with joint control of the Trust.

Controlling interests offer the holder the ability to do many things that the holder of a minority interest cannot. The value of a controlling interest is therefore usually higher than the pro-rata value of a non-controlling minority interest. The generally observed range for control premiums is between 20% to 40% however 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. Further information on observed control premiums is included in Appendix 3.

In considering an appropriate control premium for the interest in the Trust to be acquired by PCG we have considered the following factors:

- ◆ The benefits to PCG associated with increased control of the Trust, namely that this should facilitate more nimble decision making as well as the ability to pursue other strategic options which may not otherwise have been able to be contemplated with joint control
- ◆ The potential to achieve some cost savings as part of the process
- ◆ General control premiums implied in full takeover transactions
- ◆ Even after the Proposed Transaction PCG will not control the underlying investments of the Trust

Having regard to the above factors we consider a control premium in the order of 0% to 5% is appropriate for the purpose of our analysis

6.2.4 Conclusion

We have assessed the fair market value of the Class B Trust Interest as follows:

Table 16: Fair market value of the Class B Trust Interest

A\$m	Low	High
Class B unitholders interest in the Trust	60.2	60.2
Control premium (from joint to full control)	0.0%	5.0%
Benefit received by PCG	60.2	63.2

Source: Leadenhall analysis

6.3 PCG Shares issued as consideration

6.3.1 Introduction

In valuing the PCG Shares issued as consideration we have:

- ◆ Utilised the 100% value of the Trust determined above as the starting point
- ◆ Determined the value of the interest in PCG of Class B Unitholders post conversion based on the value of the Trust and the expected shareholding in PCG of Class B Unitholders if the transaction proceeds (being 13.7 million shares which represents an interest in PCG of approximately 32.8⁵%)
- ◆ Considered whether to apply a premium or discount to the shares to be issued to reflect the size and liquidity of these shares relative to ordinary PCG shares

Our consideration for each of these factors is discussed below.

6.3.2 Class B unitholders Interest in PCG post transaction

Based on our assessed value of 100% of the Trust as set out in 6.2.2 and the expected interest in PCG of Class B Unitholders post conversion, we have estimated the fair market value of the shares to be issued to Class B unitholders as follows:

Table 17: Value of the Class B unitholders interest in PCG post transaction

A\$m	
Implied value of the Trust and PCG (100%)	172.7
B Class interest in PCG post transaction (%)	32.8%
B Class interest in PCG post transaction (\$)	56.6

Source: Leadenhall analysis

6.3.3 Consideration of premium for size of stake

As discussed in Section 6.2.3 controlling interests offer the holder the ability to do many things that the holder of a minority interest cannot. For this reason, the value of a controlling interest is usually higher than the pro-rata value of a non-controlling minority interest.

As no individual Class B Unitholder will have more than 7% of PCG shares post transaction. We do not consider that a stake of this size provides any significant additional benefits relative to other portfolio holders (in terms of elements of control or negative control, change in investor universe or otherwise).

We have therefore not applied a premium for the size of the stake to be issued to Class B Unitholders.

6.3.4 Discount for lack of marketability

A controlling interest in a business is also relatively liquid, or marketable, as is a minority interest in a listed company. However, a minority interest in a private company is less marketable than a similar interest in a listed company, leading to a lower value. This difference is known as a discount for lack of marketability ("DLOM").

Non-controlling interests in unlisted companies generally sell at a discount to the price of comparable listed securities. This difference is known as DLOM or liquidity discount. It arises because investors place a significant value on liquidity – the ability to sell an investment quickly at a reasonable price. DLOMs generally fall in the range between 10% and 40%. However, there are circumstances where the appropriate discount could be significantly in excess of 40%.

The PCG Shares to be issued will be subject to a lock-up period of six months from the date of exchange (expected to be 31 March 2017).

⁵ Total shares expected to be on issue is 41.8 million being 28.1 million on issue currently and 13.7 million to be issued to Class B Unitholders

In selecting an appropriate DLOM to apply to the value of a PCG Share to reflect the reduced liquidity over the lock-up period we have considered the following factors:

- ◆ The lock-up period is only for a period of six months
- ◆ There are expectations of distributions to holders over this period which mitigates the cost to holders of not being able to sell their shares

Having regard to the above factors we consider a DLOM of nil to 5.0% is appropriate for the purpose of our analysis.

6.3.5 Conclusion

We have assessed the fair market value of the PCG Shares as follows:

Table 18: Assessed value of PCG Common shares issued to Class B Unitholders

A\$m	Low	High
Implied value of the Trust and PCG (100%)	172.7	172.7
B Class interest in PCG post transaction (%)	32.8%	32.8%
B Class interest in PCG post transaction (\$)	56.6	56.6
Premium (discount) for size of stake issued	0.0%	0.0%
Liquidity discount	-5.0%	0.0%
Total benefit provided by PCG	53.7	56.6

Source: Leadenhall analysis

7 EVALUATION OF THE PROPOSED TRANSACTION

7.1 Fairness assessment – XRPU Redemption

We have assessed whether the XRPU Redemption is fair by comparing our assessed fair market value of the XRPUs (being the value of the benefit being provided to PCG) to the net present value of the XRPU Settlement Amount (being the value of the benefit being provided by PCG) as set out in the table below.

Table 19: Assessment of fairness – XRPU Redemption

US'm	Low	High
Fair market value of XRPUs	18.0	22.0
XRPU Settlement Amount (net present value)	19.8	21.0
Net benefit received (provided) by PCG	(1.8)	1.0

Source: Leadenhall analysis

Note: Low end of consideration reflects present value impact as there remains some uncertainty as to the settlement date for the redemption. The low end assumes a settlement date of March 2018 and a discount rate of 6% reflecting the credit risk of PCG

Since the fair market value of the consideration to be paid by the is within the assessed range of fair market value of the XRPUs, the XRPU Redemption is fair to PCG shareholders.

7.2 Fairness assessment – Class B Conversion

We have assessed whether the Class B Conversion is fair by comparing the value of the PCG Shares to be issued as a result of the Class B conversion (i.e. the financial benefit to be provided by PCG to the Class B Unitholders) to the value of the Class B Trust Interest (being the value of the consideration being provided to PCG) as summarised below:

Table 20: Assessment of fairness - Class B Conversion

A\$m	Low	High
Fair market value of PCG Shares to be issued	53.7	56.6
Fair market value of B Class Interest in the Trust	60.2	63.2
Net benefit received by PCG	6.4	6.6

Source: Leadenhall analysis

Since the financial benefit provided by PCG is below the assessed range of values of the consideration received by PCG, the Class B Conversion is fair to Shareholders.

The above analysis only considers the financial impact to PCG shareholders and therefore does not include any benefit to Class B Unitholders as a consequence of the enhanced liquidity of their investment or any other factors.

We note that our conclusion on fairness is not impacted by the assumptions adopted in respect of the assessed value of a PCG Share nor the other assumptions we have made in respect of the discount for lack marketability for the shares to be issued to Class B Unitholders or the benefit of control afforded to PCG as a consequence of the conversion.

Furthermore, whilst the transaction is deemed a related party transaction for the purpose of the ASX Listing Rules, due to the opposing interests in the outcome of the transaction between PCG and the Class B Unitholders, the negotiation process was conducted on arm's length terms with perceived concessions provided by both parties.

7.3 Reasonableness assessment

7.3.1 Introduction and summary

We have defined the XRPU Redemption as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal. Similarly, we have defined the Class B Conversion as reasonable if it is fair, or if despite not being fair, there are sufficient reasons for Shareholders to vote for the proposal.

Since we have assessed both the XRPU Redemption and the Class B Conversion as fair they are both also reasonable. However, we have also considered the following advantages and disadvantages to Shareholders as set out below.

Table 21: Summary of reasonableness factors

	Advantages	Disadvantages
Proposed Transaction as a whole	<ul style="list-style-type: none"> ◆ In line with stated intention and investor feedback ◆ Likely to result in re-rating of PCG securities ◆ Increased market capitalisation ◆ Reduces the potential for conflicts of interest 	<ul style="list-style-type: none"> ◆ Potential for additional tax to be payable by PCG in the future ◆ May create an overhang in PCG shares
XRPU Redemption	<ul style="list-style-type: none"> ◆ Facilitates the Class B Conversion ◆ Provides certainty in respect of timing and quantum of redemption payment ◆ Eliminates the potential for further distraction and legal issues in respect of the XRPUs ◆ Reduced gearing for the Trust 	<ul style="list-style-type: none"> ◆ Consideration may exceed current contractual redemption price in certain scenarios
Class B Conversion	<ul style="list-style-type: none"> ◆ Provides PCG with control of the Trust (without paying a control premium) ◆ Mitigates potential for further dilution of existing PCG shareholders in the future 	<ul style="list-style-type: none"> ◆ Conversion ratio is less favourable to PCG shareholders compared to the original terms of the Merger which envisaged a conversion ratio of 1.2:1 up to 2019

Source: Leadenhall analysis

Further details of the above factors are set out below.

7.3.2 Advantages – Proposed Transaction as a whole

We consider the principal advantages of the Proposed Transaction to PCG shareholders are:

In line with stated intentions and investor feedback

PCG has had a challenging period over the last 18 months which has included a net loss for FY16 due to material impairments taken on a number of investments as well as poor share price performance.

In part to respond to the challenging conditions, PCG is in the process of restructuring the business operations with the overall aim of reducing management time and expense and streamlining the capital allocation and strategic decision making processes for the business. As part of this process, PCG has held discussions with various investors and many have expressed a desire for a more simplified corporate structure in order to better understand the financial results and prospects for the business and potentially enhanced access to capital.

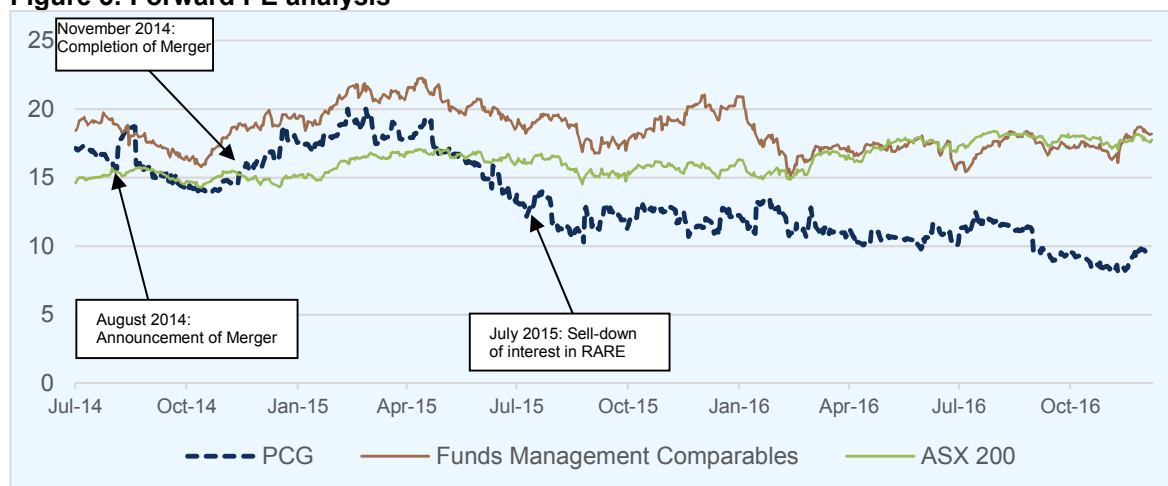
As the Proposed Transaction, will collapse the Trust structure and align the interests of existing Class B Unitholders and PCG Shareholders, whilst satisfying the obligation related to the XRPUs, it is therefore in-line with PCG's stated strategy and investor demand for a simplified corporate structure.

Likely to result in a re-rating of PCG securities

The board of PCG has previously announced that the current financial structure of the group is complex and cumbersome to operate and the board was therefore working on a simplification process in order to eliminate complexity and simplify the balance sheet with the aim of creating benefits to all investors.

The complexity of the existing structure could be a negative factor impacting the current share price of PCG. PCG's share price has declined significantly since April 2015 for a range of factors including macro factors as well as company specific factors. As set out below the price-earnings ("PE") multiple on which PCG shares trade has deteriorated since early 2015 relative to its peer group as well as the broader ASX 200 index as set out below:

Figure 5: Forward PE analysis



Source: Factset, Leadenhall analysis

Note: 'Funds Management Comparables' include the market capitalisation weighted average PE multiples for Platinum Asset Management, BT, IOOF, Perpetual, HFA, K2 Asset Management and Magellan

As set out above, in January 2015, PCG traded at a forward PE multiple of approximately 15 times which was broadly in line with the Funds Management Comparables at the time. At the time of the announcement of the Proposed Transaction PCG traded at a forward PE multiple of approximately 8.5 times⁶ which represented a discount of approximately 60% relative to the Funds Management Comparables.

There are likely specific reasons which may contribute to this downward re-rating of PCG shares including:

- ◆ Lower expectations of future growth in earnings as a consequence of the recent impairment write-downs, in particular in relation to Seizert

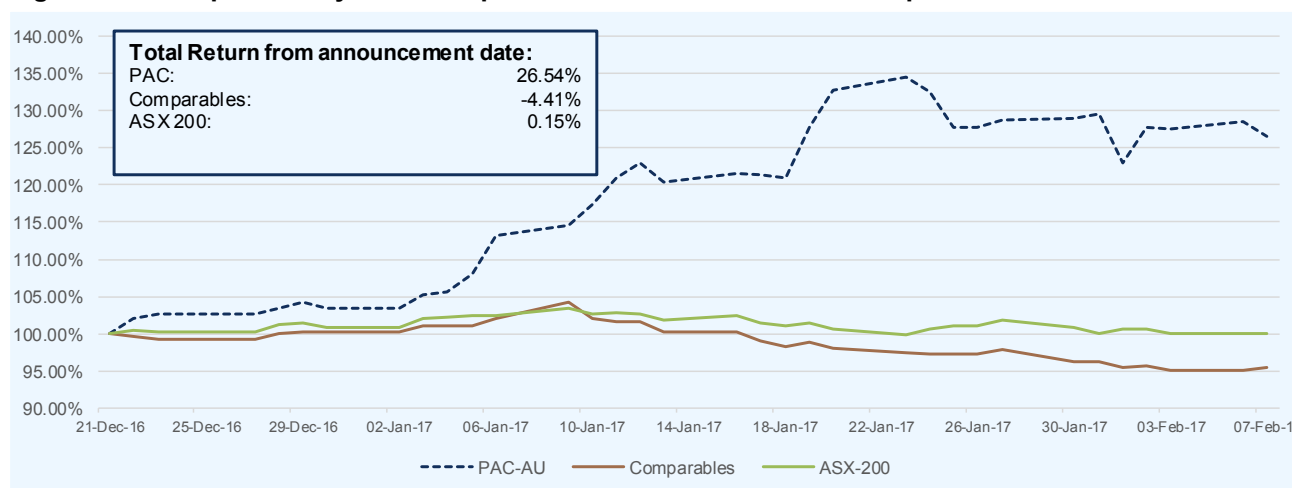
⁶ Based on the average forward multiple for the two months up until 21 December 2016

- ◆ The sell-down in Rare which was a significant contributor to PCG in terms of quality of earnings and growth prospects

However, simplification of the corporate structure has been identified as a desirable process from both investors (as communicated to PCG) and sell side research analysis based on our analysis of available reports.

We have therefore considered the reaction of the market to the transaction through analysis of the PCG share price since the announcement of the Proposed Transaction as per below:

Figure 6: Share price analysis subsequent to announcement of the Proposed Transaction



Source: Factset, Leadenhall analysis

As set out above, since the announcement of the Proposed Transaction PCG's share price has increased 21.3% which compares favourably to the Funds Management Comparables (-1.0%) and the ASX 200 (1.5%) over the same period.

PCG now trades on a forward PE multiple in the order of 12 times which represents a discount of 45% relative to the Funds Management Comparables (compared to approximately 60% prior to announcement of the Proposed Transaction). This implies the market has re-rated PCG based on the announcement of the Proposed Transaction.

To the extent the Proposed Transaction is not approved, the share price of PCG is likely to fall below current prices.

Increased market capitalisation

As a consequence of the Proposed Transaction, namely the issue of PCG shares for the acquisition of the Class B Interest in the Trust and the potential re-rating discussed above, the market capitalisation of PCG will increase. This may increase the investor universe for PCG due to additional index inclusion and/or increased sell side research coverage which may provide increased liquidity for PCG shareholders.

Reduces the potential for conflicts of interest

Since the Merger, the joint control structure of the Trust and the legal and commercial uncertainties in respect of redemption price of XRPU's has created some conflict between PCG and Class B Unitholders. Furthermore, the joint control structure of the Trust and the potential for differing tax consequences to Class A and Class B unitholders has resulted in some differences of opinion in the deployment of capital across the business.

The Proposed Transaction removes the opposing interest in respect of the XRPU's and aligns the interests of all investors whilst providing PCG shareholders with control of the Trust which should reduce the potential for conflicts of interest going forward.

7.3.3 Advantages – XRPUs Redemption

We consider the principal advantages of the XRPUs Redemption to PCG shareholders are:

Facilitates the Class B Conversion

If the XRPUs Redemption does not proceed then the Class B Conversion will not proceed. As we consider the Class B Conversion to be fair and reasonable, then approval of the XRPUs Redemption would help facilitate the Class B Conversion proceeding.

Provides certainty in respect of quantum and timing of the redemption payment

As it stands, in the absence of the XRPUs Redemption, there is the possibility that the Trust will be required to pay up to \$US42 million to redeem the XRPUs at some point between now and 2021. To the extent the Northern Lights Threshold were to be met in the near-term and a significant portion of the \$US42 million redemption price had to be funded by the Trust, this could create significant risk to PCG Shareholders since:

- ◆ The existing debt facilities of the Trust are not sufficient to meet this obligation
- ◆ PCG's portion of the redemption price (\$US13.6 million) is approximately 15% of the market capitalisation of PCG. Any equity raising of this magnitude would therefore likely be dilutive to existing PCG shareholders that did not participate

The XRPUs Redemption therefore provides certainty in respect of the amount to be paid by the Trust as well as the timing (i.e. March 2018) which allows for appropriate planning for funding options.

Eliminates the potential for further distraction and legal issues in respect of the XRPUs

In the absence of the XRPUs Redemption, ongoing management attention will remain in respect of monitoring the potential payment of the XRPUs and potentially further legal involvement in order to clarify the ambiguity which exists in the Trust Deed and other relevant documentation.

In the absence of the XRPUs Redemption, it is likely that further time and costs will be therefore be incurred in respect of monitoring and negotiating settlement of the XRPUs. Any settlement of the XRPUs obligation in such a scenario is uncertain. However, as there is such a wide range of potential outcomes, essentially between nil and \$US42 million, the consideration represents the mid-point between the potential outcomes for the instrument which reflects a balanced outcome of each party's interests which is not an uncommon outcome in litigation scenarios

Reduced gearing for the Trust

If the XRPUs Redemption proceeds, the gearing for the Trust will reduce from approximately 17% to approximately 10%⁷ as the liability for the XRPUs is currently recorded at \$US42 million by the Trust. As the redemption amount is less than the existing liability of the Trust this results in a decrease to the gearing.

⁷ Based on 30 June 2016 balances

7.3.4 Advantages – Class B Conversion

We consider the principal advantages of the Class B Conversion to PCG shareholders are:

Provides PCG with control of the Trust

Whilst PCG has a 65% interest in the Trust, PCG does not currently control the Trust as the decision-making process requires the agreement of PCG, Northern Lights and BNP. As a result, PCG currently accounts for its interest in the Trust as a joint venture arrangement despite having an economic interest greater than 50%.

The Class B Conversion will provide PCG with increased control of the Trust which should facilitate more nimble decision making as well as the removal of some costs associated with the existing structure.

Mitigates the potential for further dilution of existing PCG shareholders

As part of the Merger it was envisaged that Class B Unitholders would be able to convert their units into PCG common shares at a ratio of 1:1 within five years from completion of the Merger (i.e. 2019) or in the event of a takeover offer for PCG.

Since Class B Unitholders already receive a proportionate share of the economic benefits of the Trust, essentially on a 1:1 ratio, there is little incentive for holders to convert early to PCG shares as this would essentially crystallise a dilution of their interest. As we understand that the majority of Class B Unitholders are investors with an investment horizon of at least five years, in the absence of the Proposed Transaction, it would seem likely that the majority of the Class B Unitholders would not convert until they can do so on a 1:1 basis which would be less favourable to existing PCG shareholders compared to the terms of the Class B Conversion.

7.3.5 Disadvantages – Proposed Transaction as a whole

We consider the principal disadvantages of the Proposed Transaction to PCG shareholders are:

Tax implications

The Class B conversion could result in existing PCG shareholders absorbing (indirectly) US tax liabilities which would otherwise be borne by Class B Unitholders. However:

- ◆ There are no near term US Tax liabilities that are expected to crystallise
- ◆ Conversion to PCG ordinary shares was envisaged as part of the Merger and therefore any subsidisation of US tax liabilities by Class B Unitholders was only temporary
- ◆ There is not expected to be any adverse impact on the distributions per share as a consequence

Overhang in PCG shares

As a consequence of the Class B Conversion, Class B Unitholders will have their shares in lock-up for a period of at least six months. As there will be no trading in these shares for at least six months, this will create an overhang in PCG securities which may create heightened selling pressures and therefore downward movements on the PCG share price once the lock-up provisions are removed.

7.3.6 Disadvantages – XRPU Redemption

We consider the principal disadvantages of the XRPU Redemption to PCG shareholders are:

Consideration may exceed current contractual redemption price in certain scenarios

The \$US21 million payment by the Trust for the XRPU was negotiated as 50% of the face value of the XRPU. However, there are a number of scenarios whereby a lesser payment to XRPU holders would be required including potentially no payment. However we note that based on our analysis, some payment is likely.

7.3.7 Disadvantages – Class B Conversion

We consider the principal disadvantages of the Class B Conversion to PCG shareholders are:

Conversion ratio is less favourable to PCG Shareholders than would otherwise be required by existing contractual arrangements

As part of the Merger, Class B Units were envisaged to be exchanged into PCG ordinary shares in the future. Class B Units are currently exchangeable into PCG shares (at the option of Class B Unitholders) at the following ratios:

- ◆ Up until November 2017: 1.5 Class B Units for every PCG share
- ◆ Between November 2017 and November 2019: 1.2 Class B Units for every PCG share
- ◆ In the event of a takeover for PCG, upon the achievement of a secondary listing of PCG shares or after November 2019, 1.0 Class B Unit for every PCG share

The conversion of Class B Units is therefore occurring at a more favourable ratio (for Class B Unitholders) than the ratio at which Class B Unitholders are currently entitled to convert. However:

- ◆ There is a possibility (and a reasonable probability) that most holders of B units would wait until year 5 prior to converting as discussed above
- ◆ The Class B Conversion facilitates early conversion which is still at 'fair' terms to PCG shareholders

Since the Proposed Transaction results in Class B Unitholders converting into PCG shares at a ratio of 1 PCG Share for every 1.1 Class B units, this results in a dilution of the interest in PCG of Class B Unitholders (from 35% to 32.8%) which would not occur if Class B Unitholders elected to convert after five years.

7.4 Conclusion

We have assessed both the XRPU Redemption and the Class B Conversion as fair and reasonable to PCG Shareholders.

Our evaluation has considered PCG shareholders as a whole. We have not considered the effect of the Proposed Transaction or any elements thereof on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the Class B Conversion and/or the XRPU Redemption are fair and reasonable. If in doubt, investors should consult an independent financial adviser about the impact on their specific financial circumstances.

APPENDIX 1: GLOSSARY

Term	Meaning
AIML	Aurora Investment Management Limited
ASIC	Australian Securities and Investments Commission
Aubrey	Aubrey Capital Management Ltd
AUM	Assets under Management
Blackcrane	Blackcrane Capital, LLC
BNP	BNP Paribas Capital Partners Participations
CAGR	Compound annual growth rate
CAPM	Capital asset pricing model
CFME	Capitalisation of future maintainable earnings
Chapter 2E	Chapter 2E of the Corporations Act
Class B Conversion	1:1 Class B Units for each PCG Share
Class B Units	B-class units held by the Trust to Northern Lights and BNP Paribas Capital Partners Participations
Class B Trust Interest	interest in the Trust held by Class B Unitholders
DCF	Discounted cash flow
DLOC	Discount for Lack of Control
DLOM	Discount for Lack of Marketability
Downside Scenario	Alternate definitions of income as alternate scenario
EAM	EAM Global Investors, LLC
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Exchange Date	On or before 31 March 2017
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 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
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
Goodhart	Goodhart Partners LLP
IER	Independent Expert's Report
Initial Maturity Date	24 November 2016
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
Leadenhall/we/us/our	Leadenhall Corporate Advisory Pty Ltd
Listing Rule 10.1	ASX Listing Rule 10.1
Management Projections	Projections undertaken for each of the boutiques by PCG management for impairment testing
Merger	November 2014 merger between Treasury Group and Northern Lights
Nereus	Nereus Holdings LP
NLAA	Northern Lights Alternative Advisers, LLC

Term	Meaning
NOM	Notice of meeting
Northern Lights	Northern Lights Capital Partners
NPAT	Net profit after tax
NPBTA	Aggregate profits before taxes (excluding abnormal income, performance fees and carried interest)
OTC	Over the Counter
P/E	Price to earnings
PCG	PCG Pacific Current Group Limited
PCG Shares	PCG common shares to be issued to Class B Unitholders
Proposed Transaction	PCG restructuring of the group
Raven	Raven Capital Managers
Repayment Date	24 November 2016
RG111	Regulatory Guide 111: Content of Expert Reports
RG76	Regulatory Guide 76: Related Party Transactions
ROA	Repayment Obligated Amount
ROBA	Repayment Obligation Base Amount
Roc Partners	Roc Partners (Cayman) Limited
SEC	Securities and Exchange Commission
Settlement Date	On or before 31 March 2018
Shareholders	Existing PCG shareholders
Treasury Group	Treasury Group Limited
Trust	Aurora Trust
Trust Deed	Trust deed dated 21 November 2014 as amended
Trustee	Trustee of the Trust
US	United States
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
XRPU	Class X redeemable preferred units
XRPU Settlement Amount	\$US21 million
XRPU Redemption	Payment allocated among XRPU holders on a pro rata basis
XRPU Redemption Price	Based on the face value of \$US 42 million less any unfunded capital commitments, all interest and other costs related to the redemption of the XRPU's prior to the Initial Maturity Date

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: 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 ("DLOC")). 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:

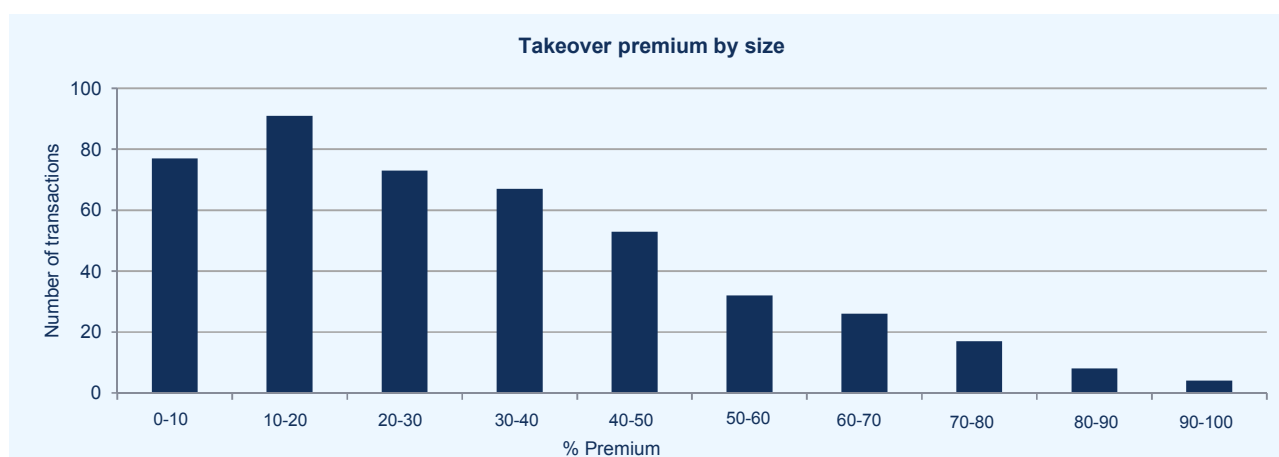
- ◆ Appoint or change operational management
- ◆ Appoint or change members of the board
- ◆ Determine management compensation
- ◆ Determine owner's remuneration, including remuneration to related party employees
- ◆ Determine the size and timing of dividends
- ◆ Control the dissemination of information 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 2004 and 2011. 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.

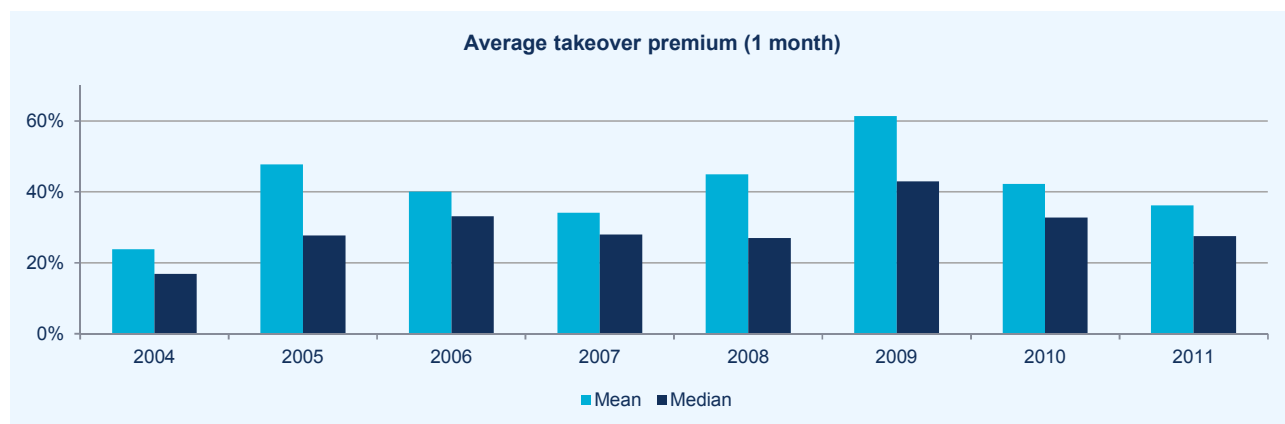


Source: Leadenhall analysis

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 actually in the range of 10% to 20%, with over 65% 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 1 month before the initial announcement.

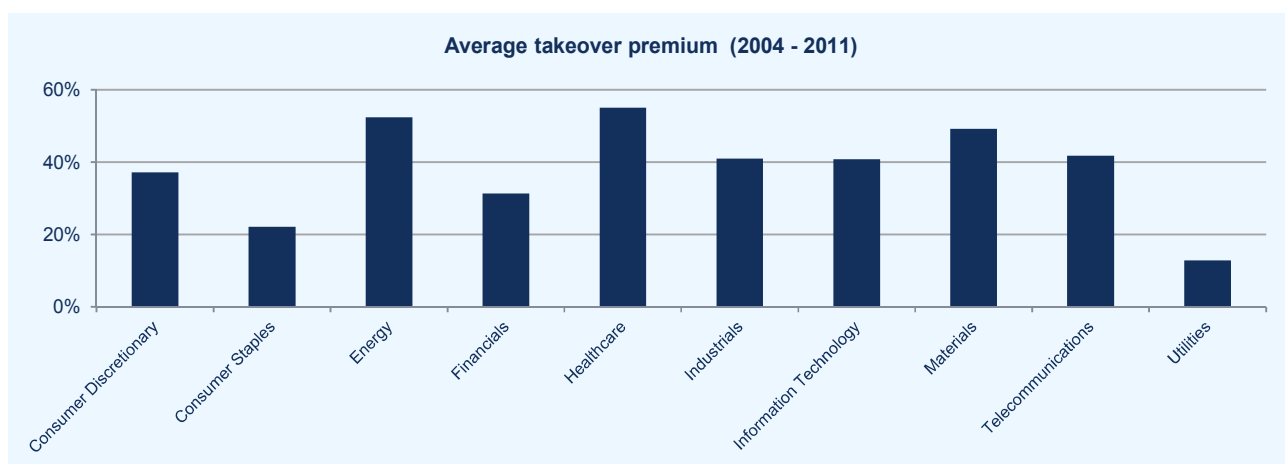


Source: Leadenhall analysis

The chart indicates that while premiums vary over time, there is no clearly discernible pattern.

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 40%.



Sources: Capital IQ, Leadenhall analysis

The average takeover premiums for the energy and healthcare industries have been distorted by a small number of transactions with premiums well over 100% such as:

- ◆ The 144% premium by paid in 2004 Sonic Healthcare for its acquisition of Independent Practitioner network, which was the result of bidding war against Primary Health Care
- ◆ The 167% premium paid by AGL for Sydney Gas in 2008
- ◆ The 371% premium paid by Arrow Energy in its \$7 million acquisition of Pure Energy Resources in 2008

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 do 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 Damodaran⁸ 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.

⁸ 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

- ◆ **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 pay-out 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 4: DISCOUNT FOR LACK OF MARKETABILITY (“DLOM”)

Introduction

Non-controlling interests in unlisted companies generally sell at a discount to the price of comparable listed securities. This difference is known as the discount for lack of marketability (“DLOM”) or liquidity discount. It arises because investors place a significant value on liquidity – the ability to sell an investment quickly at a reasonable price. DLOMs generally fall in the range between 10% and 40%. However, there are circumstances where the appropriate discount could be significantly in excess of 40%.

Evidence for DLOM

Restricted stock studies

Many US companies with publicly traded stocks also issue shares that are subject to resale and transfer restrictions (restricted stock). These shares are identical to the publicly traded shares in all respects except for the lack of registration and the restrictions on trading. There have been many studies that compare the prices of restricted stock transactions to the public market trading prices of the freely traded securities on the same day. As the shares are identical in every respect except for their trading status, the difference is solely due to the illiquidity or lack of marketability of the restricted stock. The following table, compiled by John Stockdale, Sr., summarises a number of such studies.

Study	Period	Number of companies	DLOM	
			Mean	Median
SEC Institutional Investor	1966 – 1969	398	24%	-
Gelman	1968 – 1970	89	33%	33%
Moroney	1968 – 1970	145	36%	33%
Maher	1969 – 1973	34	36%	33%
Trout	1968 – 1970	60	34%	-
Standard Research Consultants	1978 – 1982	28	-	45%
Johnson & Racette	1967 – 1973	86	34%	-
Williamette Management Associates	1981 – 1984	33	-	31%
Wruck – Registered	1979 – 1984	36	-4%	2%
Wruck – Unregistered	1979 – 1984	37	14%	12%
Silber	1981 – 1988	69	34%	-
Hertzel & Smith	1980 – 1987	106	20%	13%
Management Planning Inc.	1980 – 1995	49	28%	29%
Johnson	1991 – 1995	72	20%	-
Columbia Financial Advisers	1996 – 1997	23	21%	14%
Columbia Financial Advisers	1997 – 1998	15	13%	9%
Bajaj, Dennis, Ferris & Sarin	1990 – 1995	88	22%	21%
FMV database	1980 – 1997	243	23%	21%
FMV database	1997 – 2007	311	21%	16%
FMV database	2007 – 2008	43	9%	6%
Finnerty	1991 – 1997	101	20%	16%
Wu	1986 – 1997	301	9%	20%
Barclay, Holderness & Sheehan	1979 – 1997	594	19%	17%
Trugman Associates	2007 – 2008	80	18%	14%

Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

The more recent studies tend to show a smaller level of discount due to the Securities and Exchange Commission (“SEC”) relaxing the conditions attached to restricted stock as follows:

- ◆ In 1990 the SEC allowed trading among qualified investors holding restricted stock. This appears to have reduced the discount in restricted stock transactions, as none of the studies after this change found a mean or median discount greater than 22%, while many of the earlier studies reported figures in excess of 30%

- ◆ In 1997 the SEC reduced the holding period for restricted stock from two years to one year. This had a limited impact on the discount for restricted stock transactions, as shown by the 2% reduction in the mean discount from the transactions in the FMV database
- ◆ In 2008 the holding period was further reduced from one year to six months. Observed discounts were notably lower after this change, with both relevant studies finding a mean discount below 20%. This highlights the importance of expected time to realisation in assessing a suitable DLOM

Restricted stock studies generally show a positively skewed distribution. This is perhaps best illustrated by the following summary of six separate studies, collated by Stockdale:



Source: *BVR's Guide to Discounts for Lack of Marketability*, John Stockdale, Sr.

Restricted stock studies have some limitations; in particular they tend to involve relatively small and risky firms; and the individual discounts observed are widely dispersed (although mostly in the range of 0% to 50%). Also, the restrictions typically relate to an escrow period which is not directly comparable with a lack of marketability, where the security can be transferred at any time if a willing buyer can be found.

Pre-IPO studies

Pre-IPO studies attempt to quantify the DLOM by comparing share prices in IPO transactions with transaction prices in the same shares prior to the IPO. The data available to us from these studies is US based, with two of the most widely referenced studies summarised in the following tables:

Time between transaction and IPO	DLOM	
	Mean	Median
0-30 days	30%	25%
31-60 days	40%	38%
61-90 days	42%	43%
91-120 days	49%	50%
121-153 days	55%	54%

Source: *BVR's Guide to Discounts for Lack of Marketability*, John Stockdale, Sr.

As with the restricted stock studies, these studies show the importance of expected time to realisation. A potential caution with pre-IPO studies is the issue of sample bias, in that only companies that achieved an IPO are included. It is possible that such companies are those that have been successful over the period between the benchmark transaction and the IPO date, possibly overstating the impact of illiquidity, particularly where the time between the benchmark transaction and the IPO is relatively long.

Event studies

Event studies consider the abnormal return on a stock around a specific event such as a listing or delisting. Two such studies are discussed briefly below.

Sanger and McConnell studied the excess returns to stocks moving from over-the counter ("OTC") trading to a listing on the New York Stock Exchange over the period 1966 to 1977. The study computed an average DLOM of 20.4% before the introduction of NASDAQ in 1971, and 16.9% thereafter. It is important to note that the study does not consider the element of DLOM that should exist between a private company compared to one listed for OTC trading.

In 2003 Abbott studied the returns from stocks that delisted from NASDAQ during the period 1982 to 2001. The study identified an average DLOM of 18%. Abbott also identified three factors affecting the size of DLOM:

- ◆ **Market value** – the larger the company, the smaller the DLOM
- ◆ **Cumulative return** – the higher the return (including dividends) before the event, the smaller the resulting DLOM
- ◆ **Volume** – the larger the turnover of shares in the market, the smaller the DLOM

Other studies

Various other studies have been performed, with results generally consistent with those presented in this appendix. However we consider the studies referred to above to be more reliable. Some examples of other studies undertaken include:

- ◆ **Listed Private Equity** – in these studies a comparison is made between the market price of listed private equity investments and their net asset value. However, this difference would include the discount for lack of control as well as the DLOM. Further, the base value (book value of net assets) is an opinion provided by management or consultants, and so not necessarily very reliable evidence of market value. These studies do highlight an important issue which is that the level of DLOM changes significantly over time.
- ◆ **Bid-Ask Spread** – these studies analyse the bid-ask spread of listed companies. They measure relative illiquidity among listed companies and so are not necessarily a good indication of DLOM for private companies. A bid-ask spread study by Damodaran highlighted that spread (or discount) decreases when:
 - revenue increases
 - companies are profitable as opposed to loss making
 - cash as a % of value increases
 - trading volume increases
- ◆ **Private company transactions** – these studies compare the prices paid in minority transactions involving private companies with a base price representing the value on a liquid basis. The problem with such studies is determining a base price for comparison to the transaction price. A 1975 survey by H Calvin Coolidge used net asset value as a base price, which he believed was reasonable for the asset intensive companies in the study, which resulted in a mean DLOM of 36%, with the median DLOM also 36%.
- ◆ **Surveys** – for example the Pepperdine survey found a median DLOM of 20% for private equity and venture capital investors. However, only 5% of these investors responded that they would make an investment without suitable investor protection such as shareholder agreements, buy/sell agreements and employment agreements. This is not always representative of the circumstances of the company for which a DLOM is to be determined.

Quantitative Models

Various quantitative models for determining DLOM have been developed. At present these models have many limitations, typically including:

- ◆ The models proposed to date do not generally fit the observed data well
- ◆ Many of the models require inputs, such as volatility or time horizon to realise an investment, which are unknown for most of the circumstances where we need to apply a DLOM
- ◆ A number of models move from subjectively determining an overall DLOM, to subjectively determining a number of other factors, leading to a DLOM that appears more scientific than it actually is

Factors Impacting DLOM

Several studies have sought to identify factors affecting DLOM and if possible to quantify that impact. The studies to date identified a number of key factors, however there is insufficient evidence to point to any specific numerical relationships between the factors impacting DLOM and the level of DLOM itself, thus after evaluating how the relevant factors apply to the specific circumstances, we are left with a subjective judgement of what an appropriate DLOM should be. The key factors identified are listed below.

Factor	Smaller DLOM (< 20%)	Larger DLOM (>30%)
Size		
Revenue	Higher	Lower
Market value	Higher	Lower
Financial Stability		
Rate of return - profitability	Higher	Lower
Earnings stability	Stable	Volatile
Financial distress	Low risk	High risk
Market / Book value	Low	High
Financial Markets		
Interest rates	Low	High
Volatility	Low	High
Company structure		
Non-executive directors	Many	Few
Block size	Large	Small
Other holdings	Fragmented	Large blocks
Time to sale	Short	Long
Shareholder rights		
Shareholders agreement	Extensive	None
Tag along / drag along rights	Extensive	None
Right to appoint director(s)	Extensive	None
Restrictions on transferability	None	Severe
Expected disposal period		
Exit intentions of majority	Short term	None
Potential buyers of block	Many	One or none
Other		
Industry	The relationship between industry and DLOM is inconclusive from empirical studies. However, it may be the case that at certain points in time industries that are in demand with investors would experience relatively lower DLOMs than other industries.	
Dividends	It is often suggested that the payment of dividends reduces DLOM. While this is intuitively appealing, after adjusting for size and financial strength, empirical studies have failed to find a significant relationship between dividends and DLOM.	
Complexity of group	A complex group structure may not be appealing to investors. However, this factor should not be double counted, if it has been taken into account in determining a control value, eg. through the discount rate applied.	

Source: Leadenhall analysis

'Higher' and 'Lower' as set out above refer to the market as a whole and not specifically to the comparable companies (if any) used to determine a base value. Thus, to allow for factors such as size or earnings stability in determining suitable base value and then in assessing the DLOM to be applied would not be double counting.

The list of factors highlighted above, is a general indication of the main factors to be considered in determining a DLOM. However, the selection of a DLOM remains a subjective issue. It is important to ensure factors that have been considered in selecting a base (pre-DLOM) value are not double counted when applying the DLOM. In this regard allowing for size in the DLOM and for example the discount rate is NOT double counting, as the observed DLOM % for transactions involving smaller companies is higher than for larger companies. It is also important to remember that in a given set of circumstances one single factor can outweigh several contradictory factors, for example the existence of a savoy clause in a shareholders' agreement may outweigh many other factors, leading a very low DLOM.

APPENDIX 5: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for existing PCG shareholders for the purpose of assessing the Proposed Transaction. 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. Whilst we understand that our report will be publicly available and therefore accessed by Class B Unitholders and XRPU Holders, our report has not considered any specific requirements of these investors and has only been prepared for the benefit of PCG shareholders.

Reliance on information

In preparing this report we relied on the information provided to us by PCG and PCG 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 PCG'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 PCG and PCG'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 PCG, 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 PCG 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.

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 PCG and PCG and their officers, employees, agents or advisors, PCG 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 PCG or PCG and their officers, employees, agents or advisors or the failure by PCG or PCG 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 Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin, Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin, Simon Dalgarno, B.Ec, FCA, F.FINSIA, Katy Lawrence, BCom., CA and Chern Fung Yee, BCom., CPA (Aus).

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 PCG. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.