



Since 1857

Gresham House

*Specialist asset management*

LMS CAPITAL PLC

Board recommendation 'VOTE FOR'  
re-appointment of Gresham House

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NOVEMBER 2019

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# SUMMARY OVERVIEW

## Board recommends re-appointment of Gresham House Asset Management<sup>1</sup>

***LMS Capital plc (LMS) Board has recommended the re-appointment of Gresham House as Investment Manager, as the best solution for shareholders following a thorough process led by advisers, JP Morgan Cazenove***

- **Independent members of the LMS Board have unanimously recommended re-appointment of Gresham House**
  - Solution provides the best option for maximising long-term shareholder value for ALL shareholders
  - Track record, quality and depth of resources
  - Governance and deliverability
  - Plans and credibility to scale LMS in future
  - Shareholder value focus; NAV growth, dividends and discount management
- **Robert Rayne’s alternative self-management proposal is not considered deliverable by the Board**
  - Insufficient information on potential running costs
  - Absence of / un-named internal resources required to drive long-term performance and value for ALL shareholders
  - No evidence of support from independent shareholders
- **The Rayne self-managed proposal poses significant risks to shareholder value**
  - LMS *underperformed the FTSE All Share by 89% over 10 years<sup>2</sup>* under previous self-management led by Rayne
  - *Share price fell by 10%* following the revelation that Rayne parties would vote against the Board
  - Unrealistic that the self-managed proposal can offer the breadth of resource provided by GHAM cost-effectively; GHAM estimates cost would need to increase by over £1m p.a. to provide the resources identified by Rayne
  - Precedent suggests a small, family-controlled vehicle will struggle to scale and will *trade at an increased discount to NAV*
  - Trading *liquidity expected to fall*; little visibility for shareholders
  - Return of capital will further *reduce scale, liquidity and increase cost ratios*
- **A ‘VOTE FOR’ the board’s recommendation provides a more secure future for shareholder value**

**GHAM urges shareholders to recognise the importance of the vote and  
‘VOTE FOR’ the Board’s recommendation.**

1. Gresham House or GHAM

2. Source: Bloomberg; LMS Total Return Index compared to the FTSE All Share Total Return Index weekly between June 2006 and August 2016

***“Gresham House’s vision is for LMS to become a sought after investment fund for investors wishing to access smaller private equity deals from the Gresham House and Baronsmead brands, offering superior longer-term returns which are hard to access directly”***

## **Gresham House’s management of LMS will offer investors:**

- Exposure to the Gresham House Baronsmead Private Equity team - strong investment track record (2.6x money multiple)
- Significant investment and support resource, as well as access to broad private equity network
- Gresham House institutional discipline, process and private markets deal flow - credibility and goodwill
- Investment Committee oversight and governance
- Proactive discount control through continuation vote and a progressive dividend policy
- Ambitions and credibility to scale LMS through potential asset injections and future fundraising
- Stability in the management of the existing LMS portfolio
- Gresham House service and brand support for effective investor, board and governance relations

## **Gresham House’s strategy will:**

- Target 12-15% net IRR principally from private equity investments
- Build on a core, differentiated private equity proposition
- Leverage the successful track records of Investment Committee and Investment Team
- Access co-investment deal flow across the Gresham House group
- Be backed by an established asset manager with seven full time private equity investment professionals, an extensive private equity network, fully resourced compliance, administration and other support functions

***Gresham House's strategy for LMS will create a differentiated, premium rated fund set to target 12 - 15% annual returns, with income in excess of operating costs***

## **Core proposition**

- Smaller private-equity growth and buy-out deals
- Off-market, yielding private investments alongside equity / other investments made by Gresham House funds
- Portfolio construction to generate capital growth and cash income

## **Deal flow**

- Private equity deals
  - Deals sourced and managed by Gresham House Baronsmead Private Equity team
  - Committed and discretionary co-investment in / with Gresham House Baronsmead future funds
- Other deals
  - Co-investment alongside other Gresham House funds / bespoke deals
  - Examples:
    - Strategic Public Equity
    - Yielding instruments alongside private equity deals
    - Preferred investments alongside equity in VCT funds
    - New energy co-investments

# DISCOUNT MANAGEMENT & SCALING

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***Discount management will be addressed by a clear discount control and capital return policy supported by an attractive yield. GHAM plans to scale LMS in the future***

- The board has supported GHAM's proposal to address dividends and discount control which GHAM believes will help establish a platform for growth by demonstrating discipline in the focus on shareholder value:

## **1. Discount control mechanism**

- LMS plans to introduce continuation vote after five years to offer ALL shareholders choice

## **2. Dividend policy**

- Income yield is more valuable now than ever in history due to low global bond yields
- GHAM believes an attractive yield will be instrumental in attracting new investors and managing the NAV discount
- Initial yield target 4% based on NAV - bi-annual dividend paid out of income / capital as appropriate
- Target progressive growth in dividends

## **3. Scaling**

- GHAM's ambition is to create the conditions to scale LMS in the foreseeable future with several benefits
  - Improved liquidity for LMS shares
  - Reduced costs
  - Greater diversification
  - Widened investment opportunity set
- Seek asset swap opportunities and other means of growth

***The move to GHAM was instrumental in catalysing significant positive changes at LMS and GHAM's track record proves it has the ability to build scale***

## Delivered substantial benefits to LMS in the past

### Governance

- A new investment process with IC oversight separating board's role
- Revised (lower cost) arrangements with SFEP in the US
- Outsourced admin and custody arrangements; new depository

### Costs

- Operating costs in LMS have been reduced >50%
- Lease commitments terminated and flexibility improved
- Group structure has been simplified - further opportunity

### Portfolio

- Fully taken on management of the legacy portfolio
- Full reappraisal of NAV which led to some write downs early on (December 2016). Subsequent realisations have proven greater confidence in the NAV
- Where we have rights, we have made board appointments
- Realisations successfully generated cash to return £11m to shareholders and leave £28.4m on the balance sheet today

### IR / Shareholders

- Restructured shareholder register placing out AVI in its entirety in 2017
- IR / communications has improved - disclosure has improved through the new website; instituted quarterly NAV reporting and quarterly factsheets; Investor presentations are made available on the website every quarter
- The quality and content in the annual report has been improved

### Investment

- Successful realisations - significant net cash on balance sheet now
- Exit or reduction of legacy holdings [e.g. Weatherford; NEP; Entuity]
- Prudent management and reduction of legacy problem holdings (e.g. 365 IT, NEP)
- Successful demonstration of co-investment opportunities (e.g. Northbridge)

## Ideally placed to scale LMS in future

### Proven ability to scale

- Gresham House re-launched as an asset management business in December 2014 as start-up with no AUM
- Over five years, it has grown to £2.6bn AUM<sup>1</sup>
- Today manages over 20 funds covering private and public equity, and real assets
- Raised over £350m organically in 2019 year-to-date for listed investment companies and LP structures

### Investment capability

- Team of seven investment professionals focusing on private equity opportunities
- Extensive private equity network including advisers, consultants, co-investment partners, and executives
- Access to co-investment opportunities across all Gresham House strategies

### Public market capability

- Extensive investment trust experience
- Currently manages seven listed entities in addition to Gresham House plc
- Compliance, middle office, marketing, legal, administration capability

### Relationship with ASI

- Strategic relationship with Aberdeen Standard Investments, the largest manager of closed ended funds in the UK
- Access to distribution network and private asset strategies

# THE RAYNE SELF-MANAGED ALTERNATIVE

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## ***If the board's recommended resolution is not passed, shareholders will be forced into accepting Rayne's self managed proposal***

- What happens if the vote is lost?
  - The independent directors will resign
  - Robbie Rayne will appoint new directors
  - The new board will implement the self-management proposal
  - No shareholder vote is required (some elements of the proposal may require shareholder approval)
  
- What are the implications for non-Rayne shareholders?
  - Precedent would suggest the discount will widen and remain wide (e.g. JZ Capital at 55% discount to NAV)
  - The proposed £7.5m further return of capital will reduce the size of an already sub-scale investment company
  - Shareholder value will be at risk; un-named investment team, weak PE track record, poor governance, need for FCA approvals and compliance with uncertain timing / cost
  - No visibility of how shareholders will be able to realise their investment at a 'fair' price
  - Precedent would suggest costs will increase in time
  - Rayne family effectively takes control with no premium paid, contrary to undertakings given to the Takeover Panel in 2017
  
- Gresham House's view
  - Self-management is not in the best interests of shareholders' long term value
  - LMS is currently sub-scale; the proposed return of capital will further exacerbate the problem
  - It is crucial for a future LMS to have a credible growth / scaling plan and the ability to deliver it; self management unlikely to deliver this whereas Gresham House has proven its ability to scale
  - Gresham House will offer a continuation vote; believes it is preferable to offer all cash back to shareholders than to continue with a divided shareholder base



# SELF-MANAGED PROPOSAL IS UNREALISTIC

***Under previous self-management, LMS underperformed the FTSE All Share by 89% over 10 years. Rayne suggests the self-managed proposal can be delivered at lower cost and is a better outcome for shareholders; evidence suggests the reverse. On key issues, the GHAM proposal offers a better solution***

Issue	Commentary
<b>Cost effectiveness</b>	<ul style="list-style-type: none"> <li>GHAM's involvement led to a 50% reduction in operating costs for LMS.</li> <li>The self-managed proposal aims to hire at least seven executives; a managing director, finance professional, compliance staff, four private equity executives. It will also engage an investment committee. It will also need office support, premises, IT support, administration, marketing, legal and HR and will need to apply for FCA authorisation.</li> <li>GHAM has conservatively estimated that a realistic cost for these incremental people and functions would exceed £1.8m. In contrast, the GHAM management fee for 2018 was £717k, meaning an increase of over £1m p.a..</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>GHAM's proposal offers access to seven full time private equity professionals, transaction support, legal, compliance, Finance support, IT support, premises, FCA authorisations, broad advisory and operating partner networks. All these will need to be replicated by a self-managed LMS within a small cost base</li> </ul>
<b>Deal flow</b>	<ul style="list-style-type: none"> <li>Gresham House Baronsmead offers a recognised brand with a long term track record, established relationships throughout the PE advisory community, insight into private equity investment, and access to data (tracking over 140 companies in existing PE portfolios). The Baronsmead team has screened / reviewed over 130 potential deals in the last 12 months.</li> <li>The self-managed proposal aims to recruit individuals and work with 'established management teams' whom it will have to pay for deals<sup>1</sup></li> </ul>
<b>Governance / alignment of interests</b>	<ul style="list-style-type: none"> <li>Rayne wishes the non executive board to be directly accountable for investment decisions. This runs contrary to governance recommendations which seek to separate oversight and investment decision making precisely so the investment team can be held to account. GHAM's investment committee process adds a further layer of oversight.</li> <li>By contrast, the Rayne proposal seeks to have investments both made by and held to account by the board</li> <li>The Rayne proposals run directly contrary to the undertakings made by the Rayne concert party in the Circular to shareholders in 2017 not to seek to change the board or the company's business</li> </ul>
<b>Shareholder value / capital returns</b>	<ul style="list-style-type: none"> <li>GHAM's proposals are shareholder focused, offering a clear route to NAV growth, a continuation vote and progressive dividend policy</li> <li>The Rayne proposals are likely to lead to a significantly wider discount and a board controlled by the Rayne concert party</li> <li>Rayne's proposal to return £7.5m cash is not committed and would shrink the size of the company further</li> </ul>
<b>Track record</b>	<ul style="list-style-type: none"> <li>Gresham House Baronsmead team has delivered 2.6x money multiple over 37 assets across multiple sectors</li> <li>Under previous self-management, LMS Total Return underperformed the All Share Total Return Index by 89% over 10 years<sup>2</sup></li> </ul>

1. Note that the proposal put to shareholders by LMS, led by Rayne, in 2015 was rejected by shareholders, partly because of the fees that would have been paid to the 'established team' in the oil and gas sector

2. Source: Bloomberg; LMS Total Return Index compared to the FTSE All Share Total Return Index weekly between June 2006 and August 2016

# CONCLUSION - WHAT DOES SELF-MANAGEMENT MEAN

*Robbie Rayne's proposal to revert to self-management seeks to reverse many of the positive changes made over the past four years and leads shareholders into the unknown*

## THE LMS BOARD VIEW:

- Unclear running cost and plans for substantial resource are not considered deliverable within proposed costs
- No credible track record in PE; un-named investment team
- Insufficient scale to support the necessary infrastructure and people
- Will need new regulatory permissions - adding cost and delay

## IMPLICATIONS FOR SHAREHOLDERS

- Initial share price reaction suggests a widening discount to NAV; precedent supports this likelihood
- Robbie Rayne is seemingly conflicted and is seeking to take control of LMS
  - Under previous self-managed arrangements, individuals were well-rewarded
  - Rayne continues to receive benefits in kind and participates in legacy carry schemes; no other directors have this benefit
  - Rayne will become Chairman and continue to control investment decisions; historic record of this in LMS was poor
- Minority shareholder group seemingly acting in their own interests rather than for ALL shareholders
- No likelihood of scaling with support from institutional shareholders
- Further reduction in scale through capital returns

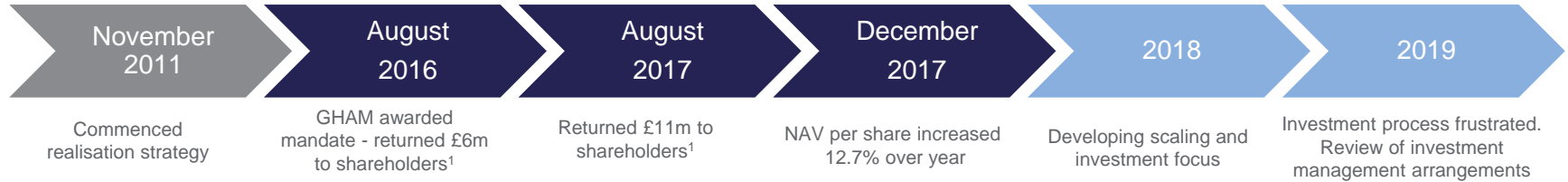
**Precedent would suggest that the discount is likely to widen; the share price fell by 10% on the announcement that Rayne intends to vote against the board's recommendations.**

**Reverting to the self-managed proposal leads shareholders into the unknown and represents a backward step in governance. Rayne should offer shareholders a full liquidation as alternative to self-management.**

# APPENDIX

# HISTORY OF GHAM'S INVOLVEMENT

*The period since GHAM's strongly supported involvement has seen significant change for LMS*



## Phased transition under new GHAM management became frustrated leading to review of management arrangements

Phase 1	<ul style="list-style-type: none"> <li>GHAM awarded mandate to manage LMS in Q3 2016. Transition to external management structure completed H1 2017</li> <li>New Investment Committee established - Tony Dalwood, Tim Farazmand, Graham Bird, Robbie Rayne</li> <li>Processes, governance and infrastructure improved; annualised costs savings in excess of £1m p.a. achieved by end 2017</li> <li>Significant shareholder restructuring achieved with placing of c.12% legacy shareholders (buyers included Investment Committee members, new institutions plus family offices)</li> </ul>	✓
Phase 2	<ul style="list-style-type: none"> <li>Portfolio fully reviewed and appraised; portfolio value drivers identified, NAV re-appraised</li> <li>Realisation strategy completed; final commitment to return cash to shareholders fulfilled with August 2017 tender; total £17m returned ahead of schedule<sup>1</sup></li> <li>Successful realisations lead to £28.4m cash (c.50% of NAV) by September 2019</li> </ul>	✓
Phase 3	<ul style="list-style-type: none"> <li>GHAM invests in private equity resources with acquisition of Baronsmead teams from Livingbridge. Positioned to accelerate investment</li> <li>Encountered opposition from veto right on IC when confirming investment focus</li> <li>Ability to re-commence investment and establish co-investment partners became frustrated</li> </ul>	✗

1. Source: £6m returned in August 2016; £11m returned in August 2017, see [http://otp.investis.com/clients/uk/lms\\_capital/rns/regulatory-story.aspx?cid=1628&newsid=988869](http://otp.investis.com/clients/uk/lms_capital/rns/regulatory-story.aspx?cid=1628&newsid=988869)



# TEAM - GRESHAM HOUSE BARONSMEAD INVESTMENT TEAM

*The proposed Baronsmead investment team is highly experienced and provides depth to cover new and existing portfolio investments. The team continues to invest in resource*

## Gresham House Ventures / PE investment team



**Steve Cordiner**  
Head of Investment,  
Gresham House Ventures

10 years' private equity experience  
(Livingbridge, Gresham House)

LP Investment Committee Member



**Bevan Duncan**  
Head of Portfolio,  
Gresham House Ventures

13 years' private equity experience  
(Livingbridge, Gresham House)

LP Investment Committee Member



**Hazel Cameron**  
Head of Portfolio Talent,  
Gresham House Ventures

20 years' private equity experience  
(3i, LDC, GCP, Gresham House)

LP Investment Committee Member



**Steve Cordiner**  
Head of Investment,  
Gresham House Ventures

6 years' private equity experience  
(Livingbridge, Gresham House)  
6 years TMT strategy consulting



**Torr**  
Ass:  
Gre:

4 years' private equity experience  
(Livingbridge, Gresham House)  
6 years KPMG advisory



**Maya Ward**  
Investment Manager,  
Gresham House Ventures

4 years' private equity experience at  
Octopus  
7 years at KPMG. Joined Sept 2019

### Currently Hiring - Gresham House Ventures

- 1 x Investment Director
- 1 x Investment Manager
- 1 x Investment and Origination Analyst

### Fund Advisors

- Wol Kolade - Managing Partner at Livingbridge
- Alan Mackay - Ex 3i, Founder and Managing Partner of GHO Capital Partners
- Sanjeev Sarkar - Crestline

## Significant supporting resource

- Resource to support the existing portfolio and more general LMS strategy in future
- Marketing, legal, compliance, administration and middle-office support to help manage investments, investor communications, and general administration

# TEAM - LMS INVESTMENT COMMITTEE

*The GHAM / LMS Investment Committee will provide continuity for LMS as well as independent oversight on asset allocation and risk management*

## LMS Investment Committee



**Tony Dalwood - CEO, Gresham House  
Investment Committee Chairman**

Over 25 years experience in public and private equity. Previously CEO of SVG Advisers, the global private equity funds business and alternatives manager. In 2005, he launched SEC plc, a London Investment Trust and raised 2 LP's. Former Chair of the LPFA Investment Panel. He is also an independent Non-Executive Director of JPEL plc.



**Bevan Duncan - Head of Portfolio, Gresham House Ventures  
Investment Committee member**

13 years' private equity experience (Livingbridge, Gresham House)  
Bevan has responsibility for overall portfolio management for the Baronsmead VCTs. He is also an active board member of several portfolio companies including MLS, Eque2, Key Travel and Pho. He qualified as a Chartered Accountant at KPMG in New Zealand where he provided consultancy services to fast growing small businesses



**Graham Bird - Fund Manager  
Investment Committee member**

Joined in 2015. Over 20 years experience in public and private equity, advisory and business. Graham was Executive Chairman and president of PayByPhone, a multi-national division of PayPoint. Prior to joining PayPoint, Graham was a Fund Manager and Head of Strategic Investments at SVGIM which followed a number of years as a director in the Corporate Finance division of JP Morgan Cazenove



**Tim Farazmand - Investment Team  
Investment Committee member**

Over 30 years experience in private equity with 3i, Royal Bank of Scotland Private Equity and latterly, he was Managing Director at LDC.

Tim co-founded ClearlySo, Europe's leading impact investment bank, and also sat on the National Advisory Board for Impact Investing and the board of a number of private companies. Tim also sits on the BVCA Council and founded the Impact Investment Advisory Group. He was Chair of the BVCA in 2014/15.

## LMS IC Terms of reference

- Capital allocation
- Portfolio construction
- Liquidity management
- Investor relations
- Corporate strategy (in conjunction with the LMS Board)
- Board liaison
- Valuation

## Board observer rights

- The LMS board will be entitled to receive investment committee papers
- The LMS board will have the right (but no obligation) to have a representative attend IC meetings as an observer

# INVESTMENT OPPORTUNITY

*Under GHAM's management, LMS will provide investors with 'liquid' access to a highly differentiated private equity strategy focused on buyouts, buy and build platforms and growth equity*

## Growing equity gap in the market

- **6,000+ scale-up companies** have received **£11bn** since 2009<sup>1</sup>
- **60% invested in last 3 years**<sup>1</sup>
- **Shortage of capital and expertise** to support the next stage of growth<sup>2</sup>
- Lower-mid market private equity firms **have moved out** of this market<sup>3</sup>

## Team uniquely positioned to target this market

- Ex-Livingbridge Growth team will lead GHBF III
- Already established **brand** and **market presence** through the Baronsmead VCTs
- Strong and consistent track record - **2.6x realised returns in this market**
- **Differentiated origination** capability

## Fund focus

- Investing in **high growth** software and technology enabled consumer and business services companies
- **Proven** and **profitable** business models
- Ability to **dominate** a market niche
- Buy outs, buy and build platforms and growth equity investments

1. Source: Beauhurst Data Platform

2. Source: Gresham House research

3. Source: BVCA data covering # PE funds focused on <£30m EV deal market 2009 to 2016

Past performance is not a reliable indicator of future performance

Target returns are expected outcomes and are not referenced to past performance. There can be no guarantee the target returns will be achieved

# TRACK RECORD - TEAM

*The Gresham House Baronsmead team has delivered consistently strong returns*

	Cost	Proceeds (Actual / Forecast)	Return (MMx)
Total invested capital (37 assets)	£216.6m	£565.1m	2.6x
Total realised returns (15 assets)	£110.4m	£288.7m	2.6x
Unrealised buyouts (10 assets)	£85.4m	£238.9m	2.8x
VCT Early Stage investments (12 assets)	£20.8m	£37.5m	1.8x

## Selected case studies



**Deal type:** MBO  
**Investment cost:** £8.4m  
**Realised Return:** 3.2x



**Deal type:** Replacement Capital  
**Investment cost:** £5.6m  
**Forecast Return:** 6.5x



**Deal type:** Replacement Capital  
**Investment cost:** £5.0m  
**Realised Return:** 3.2x



**Deal type:** Development Capital  
**Investment cost:** £3.5m  
**Realised Return:** 2.4x



**Deal type:** MBO  
**Investment cost:** £3.9m  
**Realised Return:** 3.0x

*Past performance is not a reliable indicator of future performance.*

*Case studies selected for illustrative purposes only to demonstrate investment management style and not as an indication of actual performance or investment recommendation. There can be no guarantee that target returns will be achieved*



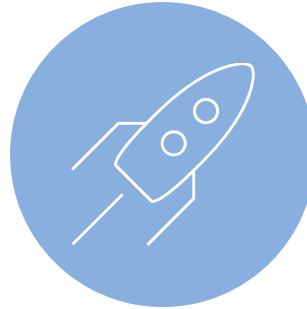
# PROCESS - ADDING VALUE

*The Baronsmead team offers a consistent and repeatable approach to accelerating growth and realising value in portfolio companies*



## Talent

- Network of high quality Non-Executive Chairs and CFOs
- Operating partners to provide functional expertise
- Best in class C-Suite recruitment processes
- Succession planning



## Operational scalability

- Strengthening financial control and board governance
- Systems and MI development
- Organisation design and development
- Technology roadmap to deliver a robust IT infrastructure and / or application scalability



## Value proposition and strategy

- Value proposition and addressable market articulation
- Sales and marketing diagnostics and executional support
- Customer data analytics and insight
- Positioning to maximise value on exit

Supported and delivered by in-house teams and a pool of operating partners

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