

HMC Capital High Conviction Alternatives Fund – Unique opportunity to access an investment in iconic Australian business Chemist Warehouse Group via Sigma Healthcare entitlement offer

- HMC Capital High Conviction Alternatives Fund ARSN 666 525 677 (**Fund**) holds, via its investment in HMC Capital Partners Trust C (**Underlying Fund**) an interest in HMC Capital Partners Fund 1¹
- HMC Capital Partners Fund 1, holds a 19.07% interest in Sigma Healthcare (**Sigma**). On 11 December 2023, Sigma announced a non-renounceable entitlement offer to raise ~\$400 million (**Sigma Entitlement Offer**) and a proposed merger with Chemist Warehouse Group (**CWG**) (**Proposed Merger**)
- The Proposed Merger is a step-change event for Sigma and will create a leading healthcare wholesaler, distributor and retail pharmacy franchisor (**MergeCo**), with expected material efficiencies, synergies and growth opportunities.
- Chemist Warehouse Group is an iconic Australian retail brand, and HMC Capital Limited (**HMC Capital**) believes the MergeCo has the potential to be significant on a global scale, with prospects of joining the S&P/ASX100 soon after implementation of the Proposed Merger. Sigma's closing price on 13 December 2023 was \$1.04 – and only existing Sigma shareholders have the right to acquire additional shares at \$0.70/share in the Sigma Entitlement Offer
- HMC Capital Partners Fund 1 is seeking to raise \$76 million capital in December 2023 to fund the take up of the Sigma Entitlement Offer, with the ability for the raising to be potentially upsized to maximum \$100 million
- **In order to participate in the HMC Capital Partners Fund 1 December 2023 capital raising, the Fund is seeking to raise further capital in December 2023**
- Existing Fund investors will be offered priority pro-rata allocation in the capital raising and the Fund will utilise substantially all of the capital raised to subscribe for units in the Underlying Fund

Completed applications, together with cleared application monies, must be received by the Responsible Entity of the Fund on or before **5pm AEDT on Friday 22nd December 2023**.

Sigma Entitlement Offer and Proposed Merger with CWG

Sigma has announced it has entered into a Merger Implementation Agreement to merge with CWG, to create an estimated ~\$8.8 billion market capitalisation leading healthcare wholesaler, distributor and retail pharmacy franchisor. The Proposed Merger is to be effected by Sigma acquiring CWG in exchange for (a) Sigma shares to be issued to the CWG shareholders; and (b) \$700 million in cash, subject to adjustments under the Merger Implementation Agreement.

¹ HMC Capital Partners Fund 1 comprises three Australian domiciled unregistered unit trusts being the Underlying Fund, HMC Capital Partners Trust A and HMC Capital Partners Trust B

Following implementation of the Proposed Merger, Sigma shareholders will hold ~14.25% of MergeCo and CWG shareholders will hold ~85.75%, and the combination is anticipated to unlock significant growth opportunities and synergies. Further information on the Proposed Merger (including conditions to the implementation of the Proposed Merger² and the key risks associated with the Proposed Merger³) and the investment highlights of MergeCo are set out in the Sigma [ASX announcement](#) and [Investor Presentation](#).⁴

As a result of the Proposed Merger, HMC Capital Partners Fund 1's existing 19.07% interest in Sigma will become a ~2.7% interest in MergeCo (assuming that HMC Capital Partners Fund 1 subscribes for Sigma shares up to its full pro-rata share of the Sigma Entitlement Offer and does not acquire or sell any additional shares). Chris Roberts AO, an existing Independent Trustee Director of HMC Capital Partners Fund 1 and non-executive director of the board of directors of Sigma, will remain as an independent non-executive director of the board of directors of MergeCo.

HMC Capital and HMC Investment Management Pty Ltd (ACN 644 510 583), in its capacity as investment manager of each of HMC Capital Partners Fund 1 and of the Fund (**Investment Manager**), believe the Proposed Merger represents a significant and compelling opportunity which is expected to create material value for Sigma's shareholders and hence HMC Capital and HMC Capital Partners Fund 1 have committed to vote any shares owned or controlled by HMC Capital and HMC Capital Partners Fund 1 in favour of the Sigma resolutions required to approve the transaction.⁵ The Investment Manager is a subsidiary of HMC Capital.

Evidence of Success of HMC Capital Partners Fund 1's Strategy

HMC Capital Partners Fund 1's average entry price in Sigma is ~\$0.58/share. Prior to the announcement on 11 December 2023, HMC Capital Partners Fund 1 had generated a 30% return on the Sigma investment and we anticipate this announcement (and the implementation of the Proposed Merger) will materially re-rate the Sigma share price – delivering even greater returns on HMC Capital Partners Fund 1's investment.

² A full list of the conditions to the Proposed Merger are contained in the Merger Implementation Agreement, attached as Annexure B to the Sigma [ASX announcement](#). The conditions include Australian Competition and Consumer Commission approval, New Zealand Overseas Investment Office approval (if required), approval by the requisite majorities of CWG and Sigma shareholders respectively (including in the case of Sigma, as required under the ASX Listing Rules), neither CWG nor Sigma being affected by a material adverse change or prescribe occurrence and other customary conditions.

³ Please see a summary of the key risks associated with the Proposed Merger at Appendix 3 of the [Investor Presentation](#).

⁴ Sigma and CWG have not been involved in the preparation of this investor letter nor do they accept any responsibility for any statements contained within this investor letter. References in this investor letter to Sigma and CWG (and any document or information issued or released by them) are included solely for information purposes.

⁵ In the absence of a superior proposal for Sigma and subject to the Sigma independent expert concluding (and continuing to conclude) that the business arrangements relating to CWG between MergeCo and its directors and holders of more than 10% of its shares are fair and reasonable or not fair but reasonable.

The announcement provides further evidence of success of executing on HMC Capital Partners Fund 1's strategy to:

- ✓ Identify significant **value creation** opportunities
- ✓ **Pro-actively engage** with investee company boards and management teams, and other stakeholders, to catalyse value for HMC Capital Partners Fund 1's investors (which includes the Fund)
- ✓ Leverage the investment team's **unique deal making capabilities**;
- ✓ Deliver returns and outcomes that are **non-correlated** to traditional equities and fixed income

Unique Investment Opportunity

Sigma is undertaking the Sigma Entitlement Offer to (a) support the delivery of the Chemist Warehouse supply contract announced in June 2023; and (b) provide funding for key growth initiatives, including the roll-out of Sigma's private label range and investment in the pharmacy brand strategy (Amcal). In the event that the Proposed Merger proceeds to implementation, and to the extent that the proceeds from the Sigma Entitlement Offer have not been applied to fund working capital needs and new business initiatives, some of the net proceeds of the Sigma Entitlement Offer may instead be used to partially fund the cash consideration payable to CWG shareholders in accordance with the Merger Implementation Agreement.

Substantial value in the exposure to the Sigma Entitlement Offer

The Sigma Entitlement Offer has been priced at \$0.70 per share, an 8.2% discount to Sigma's last trading price of \$0.765 per share on 6 December 2023, prior to announcement of the Proposed Merger and the Sigma Entitlement Offer. Sigma's closing price on 13 December 2023, post resumption of trading following the announcement of the Entitlement Offer and Proposed Merger, was \$1.04/share. **We therefore believe any rights to acquire shares at \$0.70 have value – and noting that these rights are generally only available to existing shareholders of Sigma.**⁶

Entitlements cannot be traded on the ASX or privately transferred and, if not taken up, will lapse. To the extent that HMC Capital Partners Fund 1 does not raise sufficient capital to subscribe for Sigma shares up to its full pro-rata share of the Sigma Entitlement Offer, HMC Capital will exercise and / or allocate such rights to subscribe for Sigma shares pursuant to its priority sub-underwriting agreement.

Scarce opportunities to acquire shares in the merged Sigma / CWG

Given the limited equity raising being undertaken by Sigma (in the context of the proposed size of MergeCo) there is little ability to gain exposure to MergeCo at \$0.70 per share unless you are an existing shareholder in Sigma. MergeCo is anticipated to be eligible for inclusion in the S&P/ASX200 index shortly after implementation of the Proposed Merger and hence there is expected to be material demand from investors positioning for index inclusion.

⁶ Sigma shareholders at the record date being 7.00pm on Wednesday, 13 December 2023

Unique opportunity for Fund investors

HMC Capital has provided a priority sub-underwriting commitment for \$76 million of the Sigma Entitlement Offer (which is equivalent in value to HMC Capital Partners Fund 1's entitlement under the Sigma Entitlement Offer).⁷ During the month of December 2023, HMC Capital Partners Fund 1 is undertaking a \$76 million capital raising, with the ability to potentially upsize to a maximum \$100 million, in which the Fund can participate.

Capital raised by HMC Capital Partners Fund 1 during December 2023 will be applied to subscribe for Sigma shares up to its full pro-rata share of the Sigma Entitlement Offer (being \$76 million). Any surplus funds raised in excess of the amount required to fund the subscription for Sigma shares up to HMC Capital Partners Fund 1's full pro-rata share of the Sigma Entitlement Offer, as determined by the Investment Manager, will be retained by HMC Capital Partners Fund 1 for further investments in line with the Fund's strategy.

As the Fund is a feeder fund to HMC Capital Partners Fund 1, likewise any capital raised by the Fund during December 2023 will be invested in the Underlying Fund and subject to HMC Capital Partners Fund 1's strategy.

Invest in December to gain exposure to HMC Capital Fund 1's investment in Sigma

Any new Sigma shares acquired by HMC Capital Partners Fund 1 under the Sigma Entitlement Offer at \$0.70 will be issued in January 2024, and therefore the anticipated value relating to rights to acquire the new Sigma shares at what we expect to be a discount to the prevailing market price will not be reflected in the December HMC Capital Partners Fund 1 NAV. As noted above, the Investment Manager expects that the Proposed Merger should create material value for HMC Capital Partners Fund 1 as a shareholder in Sigma.

Existing investors of HMC Capital Partners Fund 1 (of which the Fund is one) will be prioritised in respect of taking their pro-rata share of HMC Capital Fund 1's capital raising. Scale back in the event of over applications or allocation of any shortfall from existing HMC Capital Partners Fund 1 investors (as applicable) will be at the discretion of HMC Capital.

Investors wishing to participate in the Fund's capital raising, and benefit from the Underlying Fund's exposure to the anticipated value relating to rights to acquire the new Sigma shares at what we expect to be a discount to the prevailing market price, will need to submit an application by **5.00pm on Friday 22nd December 2023**.⁸

Refer below for application instructions.

⁷ This priority sub-underwriting commitment does not involve payment of any sub-underwriting fees to HMC Capital. In addition to the priority sub-underwriting commitment, HMC Capital has also provided a separate general sub-underwriting commitment of approximately \$27.1 million of the Sigma Entitlement Offer, which is unrelated to the Fund's shareholding in Sigma.

⁸ The Responsible Entity has determined for the month of December to extend the Application Cut-Off Time of 5.00pm on the 14th day of December 2023 to 5.00pm, on the 22nd day of December.

Investment Update

As set out in the November NAV statement, the Fund NAV as at the end of November was \$0.9689/share. With inflation pressures easing, and increasing confidence that we are towards the end of the rate hiking cycle, the Underlying Fund’s portfolio is well positioned heading into 2024 with high conviction positions in Lendlease and Ingenia Communities.

	<ul style="list-style-type: none"> • Strategy articulated in the paper released in August 2023 – which included a recommendation to act more decisively on its plan to transform into a more focused asset manager, including exiting certain non-core assets including the Communities business, retirement living, Ardor Gardens in China and Military Housing • The HMC Capital Partners Fund 1 continues to pro-actively engage with Lendlease management and Board, and is confident they have embraced HMC Capital Partners Fund 1’s strategic recommendation and are moving quickly to implement actions that will lead to the company becoming a more focused, capital light group • We retain our high conviction belief in material potential upside in Lendlease
	<ul style="list-style-type: none"> • Ingenia operates in the highly attractive land lease sector and is exposed to strong demographic megatrends including a growing and aging population • HMC Capital Partners Fund 1 has communicated its views on the optimal future strategy for the company to the Ingenia Board, and believes there is an opportunity to deliver significant value upside for shareholders

We are excited about the investment opportunities in front of us, and continue to believe HMC Capital Partners Fund 1’s differentiated investment approach and unique strategy will continue to unlock value accretive opportunities for Fund investors.

How to Apply

Refer to the Financial Services Guide (FSG), Product Disclosure Statement (PDS), Supplementary Product Disclosure Statements (SPDS) and Target Market Determination at <https://www.hmccapital.com.au/our-funds/hmc-capital-high-conviction-alternatives-fund/>

To invest in the Fund, direct investors should apply online via our Registry at <https://apply.automic.com.au/hmchcaf>.

Completed applications, together with cleared application monies, must be received by the Responsible Entity of the Fund on or before **5pm AEDT on Friday 22nd December 2023**.

Investors will subsequently be issued new units in the Fund in mid-January 2024, based on the Net Unit Value plus the Buy Spread as at 31 December 2023.

Further Information

If you have any questions about the capital raising, please do not hesitate to contact the HMC Capital distribution team.

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We thank you for your ongoing interest in the Fund and look forward to providing further updates on our investment progress and the Fund's performance.

Yours Sincerely,



Victoria Hardie
Managing Director
HMC Capital Partners



David Di Pilla
Managing Director and Group CEO
HMC Capital

IMPORTANT NOTICE

This Update has been prepared and issued by HMC Capital Investments Limited (ABN 34 606 555 480) (AFSL 478061) as the Responsible Entity of the Fund. The Responsible Entity has appointed HMC Investment Management Pty Ltd (ACN 644 510 583) as the Manager of the Fund. The Manager is a related party of the Responsible Entity. The information contained herein is general information only and does not take into account the objectives, financial situation or particular needs of any person. You should consider whether this information is appropriate for you and consult your financial or other professional advisor before investing. You should obtain and read a copy of the Product Disclosure Statement and the Supplementary Product Disclosure Statement relating to the Fund before making a decision to invest. Investment in the Fund is subject to risk including possible delays in payment or loss of income and principal invested.

Certain information in this document may constitute forward-looking statements. All statements of opinion or belief, all views expressed and all projections, forecasts or statements relating to expectations regarding future events or the possible future performance of the Fund, HMC Capital Partners Fund I, any prior fund or any portfolio company (including Sigma and MergeCo), represent the Investment Manager's assessment and interpretation of information available as at the date of this document. No representation is made or assurance given that such statements, views, projections or forecasts are reasonable or correct or that the objectives or prospective returns of the Fund, HMC Capital Partners Fund I, any prior fund or any portfolio company will be achieved.

In addition no responsibility is assumed for the accuracy or completeness of the information in the Sigma ASX announcement and Investor Presentation referred to in this document.