

CHESAPEAKE CAPITAL

June Quarter 2020 | Investment Update

About Chesapeake Capital

Chesapeake Capital Limited (“Chesapeake” or the “Company”) is a Pooled Development Fund (“PDF”) that seeks to invest in a concentrated portfolio of generally listed companies, through the provision of new equity capital under the PDF framework so as to generate returns in excess of the S&P Small Ordinaries Accumulation Index. PDFs can only invest in companies with total assets of less than \$50m (but can retain investments if investee’s assets subsequently exceed \$50m, subject to Innovation Australia approval). The investment framework can be summarised as:

- Investments must be made by subscribing for new ordinary shares.
- Investments by a PDF must represent 10% or more of the “Issued Capital” of the investee company.
- Individual investments cannot constitute more than 30% of the PDF’s “Issued Capital”.
- PDFs cannot invest in businesses whose primary activities are retail operations or property development.

Performance Update

As at 30 June 2020	Jun’20 Quarter	Mar’20 Quarter	FY’20
Chesapeake Capital Limited	+51.9%	-30.7%	-5.5%
Small Ordinaries Accumulation Index	+23.9%	-26.7%	-5.6%
All Ordinaries Accumulation Index	+17.8%	-23.9%	-7.2%
Emerging Companies Index	+44.7%	-38.7%	-3.3%
Chesapeake Capital Limited NTA (unaudited)	\$2.69m	\$1.74m	

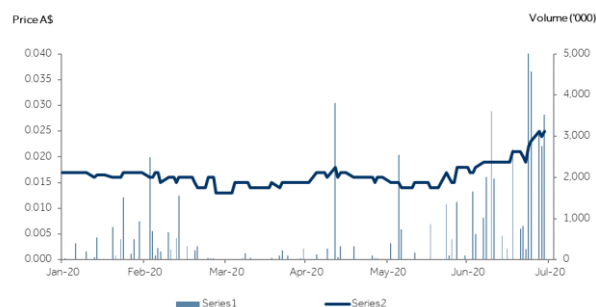
Overview

The June quarter finished on a good note with a big uptick in valuation thanks to an exposure to precious metals. The investment in gold explorer Saturn Metals is proving to be pleasing and it’s nice to see the Babylon share price coming to life. Up 35% since 30 June 2020, Babylon is in good shape and has been trading well. The company made an issue of 12.5% convertible notes during the quarter and we subscribed to \$250,000 as a source of income which will defray much of Chesapeake’s modest operating costs.

STN 6 MONTH PRICE CHART



BPP 6 MONTH PRICE CHART



Unaudited accounts show a solid recovery in Net Assets of \$2.64m at year’s end while benchmark indices all experienced modest declines. Given the volatility that visited markets it was a pleasing finish for this year.

Since June 30 interest in precious metals has resulted in the market’s tentative discovery of Podium Minerals with its 1.14m oz resource of platinum, palladium and gold plus copper in Western Australia. Podium Minerals is scheduled to start drilling again in July. The drilling program is within an exploration envelope that is targeting 3.1m to 5.8m oz’s 3E PGM within 200m of surface. Podium has an excellent investor presentation in the market which articulately defines the drilling and allows investors to understand just what the company might have. Our way of thinking is that the prospect of being able to drill most of the exploration envelope from existing sources coupled with introducing value for the copper/nickel base metal credits and perhaps add 20% for what Rhodium might add to the 3E PGM price scenario and it all adds up to something very prospective. Chalice Gold (ASX:CHN) has a PGM discovery in Western Australia and has seen its market capitalisation rise from \$42m to \$342m this year. At the minute Podium Minerals has a market capitalisation of \$14.2m @ 5.5c.

Podium’s post 30 June price rise as well as Saturn’s and Babylon’s plus a small investment in Castle Minerals has combined to increase the value of Chesapeake’s portfolio to c \$3.5m as we put pen to paper. With \$0.3m cash we recently participated in the Breaker Resources share placement.

Investments

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PDFs and Their Unique Advantage

- PDFs are a special type of Investment Company with a range of benefits over normal Investment Companies. The PDF structure was first established as a result of a Government initiative in 1992 to encourage investment into small to medium sized businesses in Australia. At the time Australia was emerging from a recession and microcap companies were finding it difficult to secure funding.
- Various attractive tax concessions were made available to investors in PDFs for income and capital gains derived in connection with their shareholding:
 - Half the prevailing corporate tax rate - Income from investments is taxed at a concessional rate of 15% rather than 30% under section 23(5)(a) of the Income Tax Rates Act 1986 ("ITRA");
 - No capital gains tax - Any capital gains made by investors holding their shares in the PDF on capital account are exempt from CGT under S118-13 of the Income Tax Assessment Act 1997 ("ITAA 1997") - conversely capital losses are non-deductible. Also, any tax-preferred income received by a PDF retains its character when it is passed through to PDF shareholders; and
 - Tax free dividends - Shareholders of a PDF may elect to treat dividends as tax exempt income or to treat the franked amount of any dividend as assessable income and receive a 30% franking credit (despite the corporate paying corporate tax at the rate of 15%, PDFs may frank dividends to 30%, enabling them to pass on a greater franking benefit to shareholders). In summary:
 - Unfranked dividends are tax exempt for an investor (s124ZM (1) of the Income Tax Assessment Act 1936 ("ITAA 1936")); and
 - Franked dividends are also tax exempt for an investor unless the investor makes an election to treat the franked dividend as assessable and receive a 30% franking credit (s124ZM(4) of the ITAA 1936).
- The PDF program closed to new applicants on 21 June 2007.
- The Pooled Development Fund Act 1992 ("PDF Act") and relevant tax law provisions continue to operate, and the relevant authorities (Innovation Australia) continues to support existing PDFs.
- PDFs cannot borrow (other than short-term borrowings in certain situations) so Chesapeake expects to remain debt free.

Corporate Snapshot

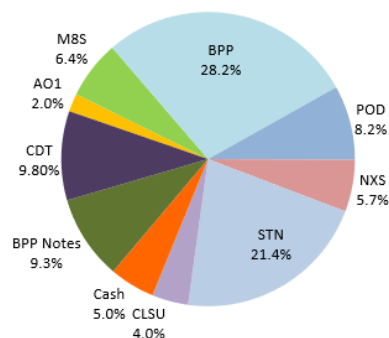
This snapshot reflects Chesapeake's evolution since inception with the make-up of its asset base as at 30 June 2020 is provided below. The unaudited NTA was \$2.64m (18.9¢ per share) with cash of circa \$0.1m.

Directors	Position	Related Shareholding
James Cullen	Non Executive Director	14.9%
Aaron Constantine	Non Executive Chairman	19.9%
Ian MacIver	Non Executive Director	4.8%
Bernard Romanin	Non Executive Director	0.3%

As At 30 June 2020	\$'m
1 Jul 19 Opening Net Tangible Assets	2.79
New Capital	0.00
Investment Gains	(0.05)
Operating Costs	(0.06)
Income Tax	(0.04)
Net Tangible Assets	2.64

Shares on Issue (m):	14.00
Number of Shareholders:	523

Indicative Distribution of Investment Assets



	30 Jun '15	30 Jun '16	30 Jun '17	30 Jun '18	30 Sept '18	30 Dec '18	31 Mar '19	30 Jun '19	30 Sept '19	31 Dec '19	31 Mar '20	30 Jun '20
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	3.26	2.76	2.03	2.59	2.79	2.77	2.51	1.74	2.64
NTA per Share (c)	17.0	24.6	26.8	24.7	21.1	15.4	18.5	20.0	19.8	17.9	12.4	18.9
Change in NTA per Share (%)	N/A	11.3	-13.1	-8.8	-15.4	-26.4	20.1	7.8	-0.1	-11.1	-30.7	51.7
S&P / ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	62,434	63,599	57,887	64,292	69,326	71,282	71,813	54,634	64,231
S&P / ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	8,140	8,230	7,102	7,997	8,296	8,555	8,620	6,316	7,826
S&P / ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,479	1,421	1,181	1,333	1,411	1,593	1,538	943	1,365

* Initial net investment capital available post resurrection of the PDF Corporate Entity

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