

CHESAPEAKE CAPITAL

March 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 31 March 2020	Mar'20 Quarter	Dec'19 Quarter	FY'20
Chesapeake Capital Limited	-30.7%	-11.1%	-37.6%
Small Ordinaries Accumulation Index	-26.7%	+0.7%	-23.9%
All Ordinaries Accumulation Index	-23.9%	+0.7%	-21.2%
Emerging Companies Index	-38.7%	-3.4%	-33.2%
Chesapeake Capital Limited NTA	\$1.74m	\$2.51m	

Overview

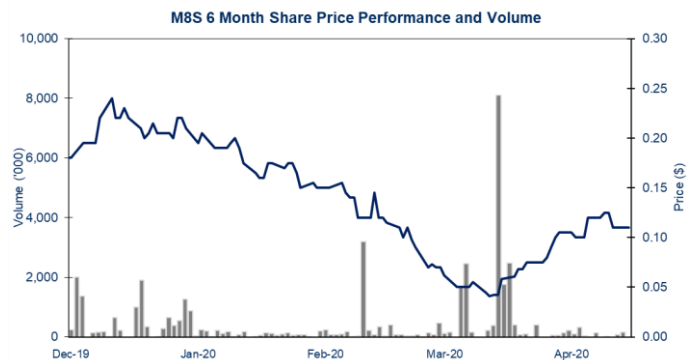
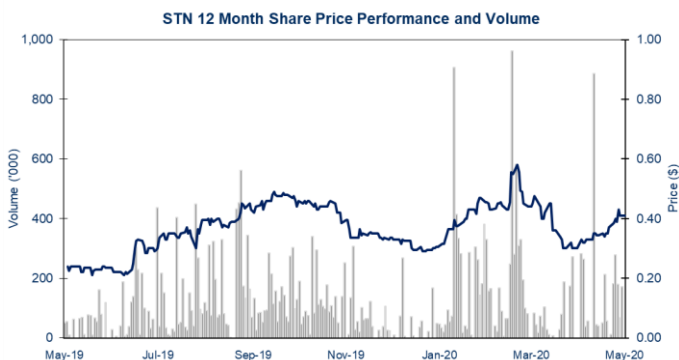
We, like everyone else, did not see the COVID19 tsunami as it violently rolled through markets in March giving rise to indiscriminate selling in large and small companies alike. That’s the nature of market crashes. Extraordinary share price movements can occur when selling, be it panicked or pressured, is greater than both demand and intrinsic liquidity. Small market capitalisation companies can bear brutally the brunt of such selling until it clears.

Such selling occurred in M8 Sustainable in which we invested at the IPO at 20cps. We subsequently traded out of 20% of the holding at up to 24cps once listed. Despite raising \$19.5m @ 20cps to be capitalised at \$35m with a well-constructed share register, and making good progress in the waste management space, several enthusiastic sellers sold some 21m shares (circa 21.5% of the IPO) down into a thin market, triggering a low of 4.1cps - you guessed it on the 31st of March. The stock cleared at an average of 5.4cps but has since recovered to 12.5cps which makes a real difference to our valuation post 31 March.

Good and experienced management, quality assets, a sound strategy and market champions will win out with time.

Nonetheless it was a raw experience getting dragged all the way into shore across the reef. PDFs are precluded from on-market buying but shareholders who did buy at those prices to average down have repositioned themselves well.

Our other shareholdings experienced share price weakness into 31 March but have variously been recovering ground across April and in fact the AssetOwl investment responded very positively to success in its execution strategy. AssetOwl now appears to have an exciting future.



As we put pen to paper the value of the portfolio has bounced back to \$2.35m being -6.4% from the 31st December valuation. M8 Sustainable has further recovery to make the investment whole and that would have a meaningful impact on our circumstances. Calendar year to date the market is circa minus 20%.

Investments

NEXT SCIENCE

SATURN METALS

M8
sustainable

BABYLON

PODIUM
MINERALS
LIMITED

AssetOwl

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.

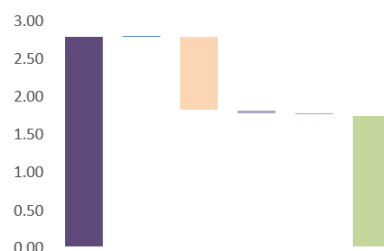
Corporate Snapshot

This snapshot reflects Chesapeake's evolution since inception with the make-up of its asset base as at 31 March 2020 is provided below. The unaudited NTA was \$1.74m (12.4¢ per share) with cash of circa \$0.6m.

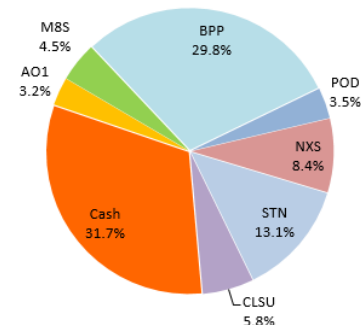
Directors	Position	Related Shareholding
James Cullen	Non Executive Director	14.9%
Aaron Constantine	Non Executive Chairman	19.9%
Ian Macliver	Non Executive Director	4.8%
Bernard Romanin	Non Executive Director	0.3%

As At 31 March 2020	\$'m
1 Jul 19 Opening Net Assets	2.79
New Capital	0.00
Investment Gains	(0.98)
Operating Costs	(0.06)
Income Tax	0.00
Net Tangible Assets	1.74
Shares on Issue (m):	14.00
Number of Shareholders:	523

FY'20 Asset Evolution



Indicative Distribution of Investment Assets



	30 Jun '15	30 Jun '16	30 Jun '17	31 Mar '18	31 Dec '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
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	3.23	2.99	3.26	2.76	2.03	2.59	2.79	2.77	2.51	1.74
NTA per Share (c)	17.0	24.6	26.8	27.1	25.3	24.7	21.1	15.4	18.5	20.0	19.8	17.9	12.4
Change in NTA per Share (%)	N/A	11.3	-13.1	7.2	-6.1	-8.8	-15.4	-26.4	20.1	7.8	-0.1	-11.1	-30.7
S&P / ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	57,791	60,007	62,434	63,599	57,887	64,292	69,326	71,282	71,813	54,634
S&P / ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	7,560	7,776	8,140	8,230	7,102	7,997	8,296	8,555	8,620	6,316
S&P / ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,482	1,522	1,479	1,421	1,181	1,333	1,411	1,593	1,538	943

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

This document is issued by Chesapeake Capital Limited (ABN 80 106 213 772) in relation to its activities. The information provided in this document is general information only and does not constitute financial advice or a forecast. The content of this document does not constitute tax or legal advice or an offer of solicitation to subscribe for shares in Chesapeake Capital Limited. The information in this report has been prepared without taking into account your objectives, financial situation or needs. Chesapeake Capital Limited, the Directors, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that Chesapeake Capital Limited will achieve its targeted rate of return and no guarantee against loss resulting from an investment in Chesapeake Capital Limited or the repayment of capital or income invested in Chesapeake Capital Limited. Past investment performance is not indicative of future performance. Before acting on any information contained in this document, recipients should consider the appropriateness of the information provided and should consider consulting a qualified financial adviser.