

CHESAPEAKE CAPITAL

September Quarter 2019 | 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”. In securing a variation to its Investment Plan from Innovation Australia, Chesapeake Capital Limited may, until March 2020, “acquire less than 10 percent of the shares in an investee without first seeking approval from the Board” where the PDF invests at least \$500,000 into the investee company.
- PDFs cannot invest in businesses whose primary activities are retail operations or property development.

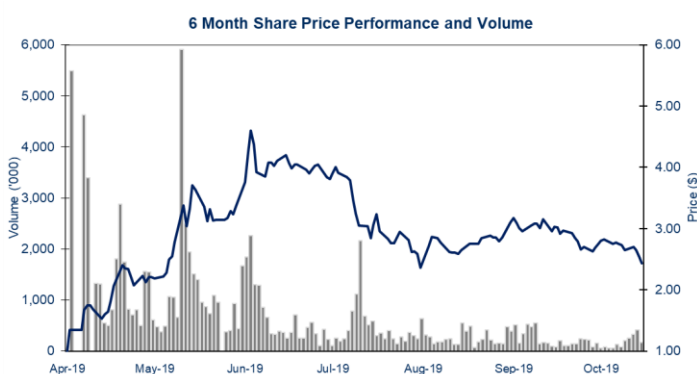
Performance Update

As at 30 September 2019	Sept '19 Quarter	Jun '19** Quarter	FY'19**
Chesapeake Capital Limited*	-0.9%	+8.1%	-14.4%
Small Ordinaries Accumulation Index	+3.1%	+3.7%	+1.9%
All Ordinaries Accumulation Index	+2.8%	+7.8%	+11.0%

* Initial investment capital available from late June 2015 was \$1.51m so returns have been calculated from that reference point. **Now audited / restated

Overview

The Next Science Limited (“**Next Science**”) share price invariably got a bit ahead of itself upon listing with its \$1.00 shares trading up to \$4.11, which is why we sold 60% of the holding running into June 30. A high calibre Board is at work here and sales growth and product launches could give rise to significant share price growth over the next 2 years. The AGM presentation supported this proposition. We expected share price volatility in the early stages post listing and got it post 30 June with a 30 September share price of \$2.96. One of the limitations of a PDF structure is the prohibition to “buying shares on market”. Acquisitions must be facilitated through a new issue of shares and companies generally only do this periodically. This limitation and our enthusiasm for Next Science kept us invested.



During the quarter we traded out of Breaker Resources NL profitably and participated in a Saturn Metals Limited (“**Saturn**”) share placement subscribing for \$500,000 of new shares. A Western Australian gold story. Saturn recently upgraded its Apollo Hill gold resource to 781,000 oz and this is expected to grow with further drilling. This investment is off to a solid start.

Cash at 30 September was \$0.6 million and we have been working this back up towards \$1m with sales so as to participate in the M8 Sustainable Limited (“**M8**”) IPO and have the facility to participate in another new issue. M8 is an established, integrated and sustainable waste management business with a high quality portfolio of Western Australian waste management assets expected to list on the ASX by Christmas.

The FY2019 audit was finalised and required the recording of a tax liability as a result of unrealised losses not being deductible until realised. This audit process required an adjustment to NTA per share from 22.2c (unaudited) to 20.0 cents (audited).

Investors do ask about the utility of PDF’s and when making good profits these can be quite attractive and certainly unique. It is our understanding that there might be 27 still in existence and set out overleaf those advantages a PDF can offer. The key is to make profits – that’s our objective. The challenges that were FY2019 are behind us and we move forward.

Investments



PDFs and Their Unique Advantage

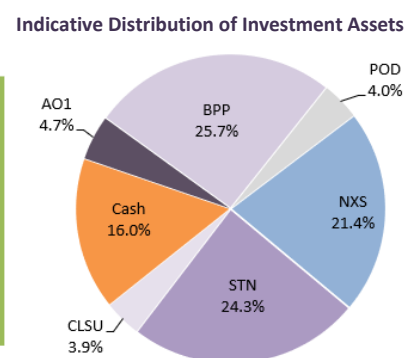
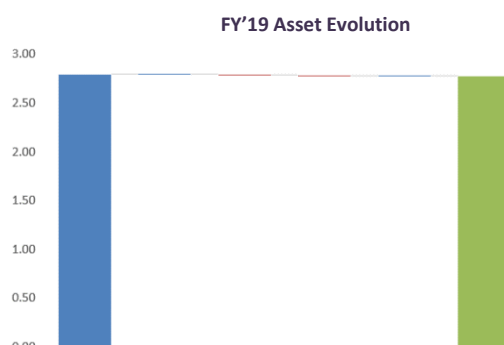
- PDFs are a special type of Investment Company with a range of benefits over normal Investment Companies. The PDF structure was first established as a result of a Government initiative in 1992 to encourage investment into small to medium sized businesses in Australia. At the time Australia was emerging 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 expect 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 September 2019 is provided below. The unaudited NTA was \$2.77m (19.8c per share) with cash of circa \$0.6m. It is the intention to rotate the role of Chairman to Aaron Constantine during the December quarter.

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

As At 30 September 2019	\$'m
1 Jul 19 Opening Net Assets	2.79
New Capital (from end March)	0.00
Investment Gains	(0.01)
Operating Costs	(0.01)
Taxation Benefit	0.00
Net Tangible Assets	2.77



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

	30 Jun '15	30 Jun '16	30 Jun '17	31 Dec '17	31 Mar '18	30 Jun '18	30 Sept '18	30 Dec '18	31 Mar '19	30 Jun '19	30 Sept '19
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	2.99	3.23	3.26	2.76	2.03	2.59	2.79	2.77
NTA per Share (c)	17.0	24.6	26.8	25.3	27.1	24.7	21.1	15.4	18.5	20.0	19.8
Change in NTA per Share (%)	N/A	11.3	-13.1	-6.1	7.2	-8.8	-15.4	-26.4	20.1	7.8	-0.1
S&P / ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	60,007	57,791	62,434	63,599	57,887	64,292	69,326	71,282
S&P / ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	7,776	7,560	8,140	8,230	7,102	7,997	8,296	8,555
S&P / ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,522	1,482	1,479	1,421	1,181	1,333	1,411	1,593

* Initial net investment capital available

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