

HFA Asset Management Announcement December 2008

HFA Asset Management has announced a temporary suspension of redemptions in three funds.

- HFA Asset Management Limited (HFAAM) has announced that it has temporarily suspended redemptions in the three HFA Funds that have direct or indirect investments in the Lighthouse Partners Diversified Fund (Lighthouse Diversified Fund) namely, **HFA Octane Fund** ARSN 093 497 860 (HFA Octane 1) and **HFA Octane Fund Series 2** ARSN 113 164 506 (HFA Octane 2) and **HFA Diversified Investments Fund** ARSN 093 497 468 (HFA DIF) (collectively the **HFA Funds**).
- No other HFAAM funds are subject to redemption suspensions.
- The temporary suspension affects all redemptions due to be paid from 31 December 2008 and beyond, including those for which a redemption request has already been received.

Why such a move by HFAAM?

- The HFA Asset Management business and funds have continued to receive strong support from investors throughout the year despite the extreme global market conditions.
- HFAAM has not seen a material spike in redemptions from retail investors and as such the suspension of redemptions in the HFA Funds is not as a consequence of a "run" on redemptions in the HFA Funds. It is as a consequence of a change in the redemption policy of the Lighthouse Diversified Fund, in which the HFA Funds directly or indirectly invest, and the liquidity profile of a select number of their underlying managers.
- The temporary changes to the redemption policy of the Lighthouse Diversified Fund have been imposed in response to the continued significant deterioration of liquidity in the global capital markets which has had a contagion impact on underlying managers and has forced the gating of funds by some underlying managers. These changes have triggered provisions within the Corporations Act that apply to the treatment of redemptions by the HFA Funds.
- In summary, the Corporations Act prohibits the HFA Funds from processing redemptions (during the period of the changes to the redemption policy for Lighthouse Diversified Fund) because the HFA Funds are considered 'illiquid' within the meaning of the Corporations Act. The 'illiquidity' arises because the change in policy by Lighthouse Diversified Fund means that it will not be meeting 100% of redemption requests in cash.
- The above factors have forced HFAAM to take this action to protect the interest of all unitholders in the HFA Funds and to ensure compliance with the Corporations Act.

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- The suspension of redemptions in the HFA Funds by HFAAM has no impact on the operation of, or investments in, other HFA funds.
- The performance of the HFA Funds' underlying investments is benchmarked to industry indices and these investments continue to perform in line with expectations.
- The HFA Funds continue, indirectly, to be diversified across over 50 underlying managers and over 11 underlying strategies.
- During this period of the suspension of applications and redemptions from the HFA Funds the funds will continue to be fully invested in line with the investment strategy of the underlying Lighthouse Diversified Fund.

The new approach

- Assures that all unitholders are treated equally and fairly.
- Enables HFAAM to protect the value of the HFA Fund's underlying investments.
- Ensures HFAAM and the HFA Funds comply with the Corporations Act.
- Is a necessary response to the current market conditions, and is consistent with the actions of major US and Australian fund of hedge funds and hedge fund managers.

Redemptions

- The suspension of redemptions in the HFA Funds is considered by HFAAM to be a temporary measure.
- All redemptions, including those for which a redemption request has already been received, will be suspended effective immediately. This includes redemption requests received but not yet processed as at the 31st of December redemption date.
- At this time HFAAM has not set any time period for when the suspension of redemptions will be lifted. The time period will depend on the duration of the Lighthouse Diversified Fund's revised withdrawal payment policy which in turn will predominately be influenced by global financial markets and the time required for them to return to more normal trading conditions.

Frequently Asked Questions & Answers

Q What funds are affected?

A Only the HFA Funds that have direct or indirect investments in the Lighthouse Diversified Fund are affected, **namely: HFA Octane Fund** ARSN 093 497 860 and **HFA Octane Fund Series 2** ARSN 113 164 506 and **HFA Diversified Investments Fund** ARSN 093 497 468.

No other HFAAM funds are subject to redemption suspensions this includes HFAAM's other OCTANE Funds, **OCTANE Asia, OCTANE Global and OCTANE 5** as these funds do not have exposure to the Lighthouse Diversified Fund. Of particular note is that HFAAM's other open ended fund, the **HFA International Shares Fund** (HFA ISF), is **not** affected. HFA ISF invests in highly liquid equity long short strategies, via a managed account structure, and it is therefore not exposed to gating or suspension of redemptions from underlying managers.

Q What changes have been made to the suspended HFA Funds?

A There is no change to the HFA Funds' strategy of direct or indirect investment in the Lighthouse Diversified Fund nor to the Lighthouse Diversified Fund's underlying investments or underlying asset allocation between underlying managers. The only change to the HFA Funds is an immediate suspension of redemptions.

During the period of the suspension of redemptions, new and additional investments will not be accepted into HFA DIF.

The suspension of redemptions in the HFA Funds by HFAAM has no impact on the operation of, or investments in, other HFA funds.

Q How has the Lighthouse Diversified Fund's withdrawal payment policy changed?

A Whilst the Lighthouse Diversified Fund has not suspended withdrawals it is implementing a change in its withdrawal payment policy which will result in redemptions being satisfied by a combination of cash and an 'in kind' distribution of interests in a special purpose vehicle established by the Lighthouse Diversified Fund, which will hold interests in certain designated, less liquid investments.

The changes to the redemption policy of the Lighthouse Diversified Fund have been imposed in response to market conditions and the gating of funds by some underlying managers.

Q Why did the Lighthouse Diversified Fund decide to implement a change to its withdrawal payment policy?

A Lighthouse Partners LLC (Lighthouse) is concerned with the deterioration of liquidity in global capital markets and, in particular, the implications for the underlying managers of the Lighthouse Diversified Fund.

In recent days major US hedge funds have gated or partially suspended redemptions. These events are expected to place increased redemption pressure on funds operating within the sector.

Lighthouse is concerned that underlying managers in the Lighthouse Diversified Fund will now accelerate the gating or suspension of redemptions in their funds over and above the underlying managers that have already gated or suspended redemptions.

Should that occur then client redemptions in Lighthouse Diversified Fund would need to be met through the most liquid part of that fund's portfolio; this would result in the Lighthouse Diversified Fund portfolio becoming increasingly less liquid.

Further, this would alter the composition of the Lighthouse Diversified Fund's portfolio, potentially meaning the portfolio is no longer adequately diversified among intended investments. Additionally, continued redemptions may result in the liquidation of illiquid assets under a distressed scenario, meaning the portfolio will not achieve full value for the portfolio's underlying assets.

Accordingly, these events have resulted in a change to the Lighthouse Diversified Fund's withdrawal payment policy.

Q Why did HFAAM decide to suspend redemptions in the HFA Funds?

A The decision to suspend redemptions is necessary to ensure compliance with the Corporations Act and was prompted by changes to the Lighthouse Diversified Fund's redemption policy.

The decision to suspend redemptions has been taken to ensure that the HFA Funds' investors' interests are protected, all investors are treated equally and the HFA Funds continue to comply with the Corporations Act.

Q Why does the policy of Lighthouse Diversified Fund affect the HFA Funds?

A The HFA Funds have direct and indirect investments in Lighthouse Diversified Fund. The ability of the HFA Funds to process redemptions requires the Lighthouse Diversified Fund to be able to meet the withdrawal requests of the HFA Funds in cash.

The change in the withdrawal policy for the Lighthouse Diversified Fund means that it would be making 'in kind' distributions and the consequence for the HFA Funds is that they will technically cease to be liquid for the purposes of the Corporations Act. This is because the HFA Funds may not be able to realize the 'in kind' distributions within the timeframes provided in the constitutions of the HFA Funds for satisfying redemption requests.

Q How long do you think this suspension will remain in place?

A As this suspension results from the change in the Lighthouse Diversified Fund's withdrawal payment policy which is principally linked to the unprecedented conditions being experienced in global financial markets, at this stage we are unsure how long this process will be in place but we will ensure we keep investors informed of any developments as they occur.

Q Will other HFA Funds be subject to a suspension?

A No other HFAAM are subject to redemption suspensions this includes HFA's other OCTANE Funds **OCTANE Asia OCTANE Global and OCTANE 5** as these funds do not have exposure to the Lighthouse Diversified Fund. Of particular note, is that HFAAM's other open ended fund, the **HFA International Shares Fund (HFA ISF)**, is **not** affected. HFA ISF invests in highly liquid equity long short strategies, via a 100% managed account structure, and it is therefore not exposed to gating or suspension of redemptions from underlying managers.

Q Will the HFA Diversified Investments Fund continue to pay distributions whilst it is suspended?

A Yes, provided there are realised gains to distribute.

Q What impact does the suspension of redemptions in HFA Octane 1 and HFA Octane 2 have on these investments?

A HFAAM is currently working with the HFA OCTANE 1 and 2 counterparty (Macquarie Bank) to determine the impact of the suspension. We will ensure we keep investors informed of any developments as they occur.

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Q Has HFAAM ever suspended redemptions or failed to meet a redemption in the past?

A No. The current market conditions are extraordinary and are unprecedented in HFAAM's 10 year history.

Q How are HFA Fund investor interests protected?

A The HFA Funds continue to be regulated by the Australian Securities and Investments Commission and continue as registered managed investment schemes. As such they are audited by KPMG and the HFA Funds' assets are held only for the benefit of their respective unit holders, by an independent Custodian.

Q What are HFAAM's competitors doing?

A In recent days major US and Australian Hedge Fund Competitors have also closed their funds and / or suspended redemptions.

Q What is the expected impact on the hedge fund and fund of hedge fund industry?

A The industry is experiencing a period of change as the global financial crisis has impacted all asset classes (Bank Savings Accounts, Mortgages, Property, Bonds, Shares) and almost all money management operations including long only managers and hedge fund managers. This current financial crisis will impact certain hedge fund managers and strategies more than others, especially those that rely in applying leverage to generate strong returns.

Also we believe we will see a consolidation of the industry with smaller managers who are unable to compete being marginalised out of the industry. As with all industries the larger and stronger players have the potential to emerge post crisis in a more favourable position with very strong prospects for the future as less participants means less competition and hence more opportunities for investment returns.

Even with negative returns in 2008, many hedge funds and especially fund of funds have shielded investors from most of the downside experienced in equity and credit markets. This protection afforded to fund of hedge fund investors in this unprecedented global financial crisis will ultimately be recognised as a good result given the head winds the financial crisis and in particular the credit crisis has thrown at investors.

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Q Where are HFAAM and LHP ranked in the fund of hedge fund industry?

A HFAAM and LHP are ranked in the Top 50 Fund of Hedge Funds in the world with a current ranking as the 35th largest Fund of Hedge Fund house globally.

Note: The information above is current as at the date of this document. This document includes forward looking statements that are made based on the information available to HFAAM as at the date of this document and HFAAM's expectation of future events in light of current market, economic and operational conditions. Actual outcomes may vary from those indicated as a result of changing circumstances or for other reasons, including those beyond HFAAM's control.