

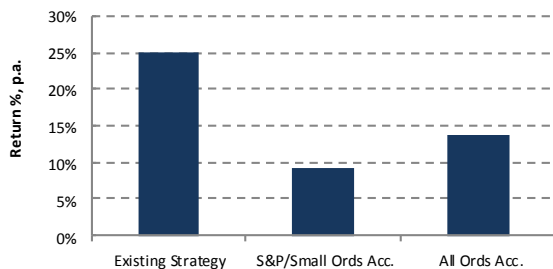
Background

Acorn Capital Limited ACN 167 595 897 (**Acorn or Manager**) is establishing a specialised listed investment company (**Acorn Capital Investment Fund Limited, ACIF or the Company**) to provide retail investors with an opportunity to gain access to listed and unlisted Microcap Companies. Acorn defines **Microcap Companies** as those (be they listed or unlisted) with a market capitalisation of less than that of the 250th largest on the ASX (being \$445 million as at 31 January 2014).

Acorn is an established institutional investor in ASX-listed entities with a track record of investing in Microcap Companies. A similar strategy to that proposed for ACIF has been in operation since 2009, by way of two wholesale institutional mandates, one of which most closely resembles the investment strategy proposed for ACIF and is called the **Existing Strategy**. The Existing Strategy was the culmination of significant research and development by Acorn in its search for a new approach to exploit its perception of inefficiencies in the pricing of unlisted markets.

The total return (pre-fees and taxes) from the Existing Strategy has outperformed the S&P/ASX All Ordinaries Accumulation Index and S&P/ASX Small Ordinaries Accumulation Index since inception and retail investors are now, for the first time, being given the opportunity to access this strategy.

Figure 1. Existing Strategy Performance (pre-fees and taxes) p.a. since Inception (Feb 2009) (Note i)



Acorn has approximately \$1.1 billion in funds under management (as at 31 January 2014) and is a large specialist Microcap investor. By virtue of its scale it has substantial shareholder interests (>5%) in 53 listed companies (as at 31 December 2013) and is a large participant in the primary market for the securities of Microcap Companies. ACIF is differentiated from existing LICs by its portfolio approach to listed and unlisted Microcap Companies.

Acorn is 55% employee owned and 44% backed by the institutional strength of Australian Unity (note ii).

Acorn employs a bottom-up stock selection process to exploit alpha opportunities in what it considers under-researched and inefficient markets.

Summary

Transaction:	Initial Public Offering via Placement
Issuer:	Acorn Capital Investment Fund Limited ACN 167 595 897
Joint Lead Managers:	Baillieu Holst Ltd Morgans Financial Ltd T.C. Corporate Pty Ltd Bell Potter Ltd
Authorised Intermediary:	Baillieu Holst Ltd

Offer Details

Offer type:	Placement under prospectus ('the Prospectus')								
Securities:	Fully paid ordinary shares plus 1:1 option entitlement								
Amount:	Minimum \$50m and up to \$100m								
Offer Price:	<p>Broker Firm Offer</p> <p>\$1.00 per share comprising:</p> <ul style="list-style-type: none"> Issue price of \$0.9835; and Service Fee of \$0.0165. <p>General Public Offer</p> <p>Issue price of \$1.00 per share</p> <p>Each share has an entitlement to one option to acquire by way of issue one ordinary share at an exercise price of \$1.00 per share. Each option has an 18 month expiry and will be exchange traded.</p>								
NAV:	<table border="1"> <thead> <tr> <th>Subscription amount, \$m</th> <th>50.0</th> <th>75.0</th> <th>100.0</th> </tr> </thead> <tbody> <tr> <td>NAV per share ⁽ⁱⁱⁱ⁾, \$</td> <td>0.978</td> <td>0.980</td> <td>0.981</td> </tr> </tbody> </table>	Subscription amount, \$m	50.0	75.0	100.0	NAV per share ⁽ⁱⁱⁱ⁾ , \$	0.978	0.980	0.981
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NAV per share ⁽ⁱⁱⁱ⁾ , \$	0.978	0.980	0.981						
Use of Funds:	Funds raised will be invested according to ACIF investment mandate.								

Fund Overview

Investment Guidelines	<p>Post portfolio construction, ACIF proposes to target the following characteristics:</p> <ul style="list-style-type: none"> 60 to 80 stocks Diversified portfolio with sector weights set by reference to the SIRCA Microcap Benchmark Individual security positions not to exceed 7.5% of the dollar value of the Investment Portfolio at the time of investment Exposure to unlisted securities expected to be 0-50% of the Portfolio Market Value <p>Acorn will invest in equity or equity-linked (e.g. convertible debt, or debt with attaching warrants/options) securities. Acorn will not leverage ACIF.</p> <p>ACIF will invest in Australian domiciled or listed companies, as well as those that the Acorn determines have a sufficient nexus to Australia (being significant Australian resident management, or a stated intention to list on ASX).</p>
Fees	<p>Management Fee: 0.95% p.a. (ex GST).</p> <p>Performance Fee: 20% (ex GST) of the Portfolio's outperformance of the S&P/ASX Small Ordinaries Accumulation Index. Performance fee features a high watermark and a mechanism to retain a portion of the performance fee to offset against possible future underperformance.</p>

Investment Highlights

Benefit from gaining access to a respected and experienced boutique investment manager, in Acorn:

- Track record of investment in Microcap Companies.
- The Existing Strategy has outperformed the S&P/ASX All Ordinaries Accumulation Index and S&P/ASX Small Ordinaries Accumulation Index over the last ~5 years by 15.8% p.a. and 11.3% p.a. on a pre-fees and pre-tax basis (note i).
- Australian investment team of nine with an average of 24 years relevant experience.
- Portfolio management techniques developed since establishment in 1998.
- Board with strong experience in capital markets, corporate governance.

Distinctive investment opportunity to invest in Australian unlisted microcap companies.

- Ability to broaden an investor's investable universe by providing access to an equity market which is considerably larger than that offered by an ASX listed only investment strategy.
- Access to an investment strategy not traditionally available to retail investors.
- Access to unlisted markets whilst retaining the benefits of a portfolio that endeavours to have diversification by industry and the number of stocks held.

Benefit from a research driven investment process in large, under researched and hence less efficient listed and unlisted markets

- Structured, methodical and thorough approach to investment opportunities.
- Significant capital growth opportunities:
 - Over 50% (by number) of listed Microcap Companies are developing companies (those with revenues 10% or less than their market capitalisation) and exhibit similar characteristics to that of venture capital / growth private equity investments (note iv).
 - 30% of companies in the ASX250 were either listed Microcap Companies 10 years ago or IPO'd as Microcap Companies in that period (note v).
- Large, under researched and inefficient market – there are more than 1,656 companies listed on the ASX outside the top 250 (note vi) and more than 13,000 large proprietary and public companies (note vii).
- Performance fee features a highwatermark and a clawback mechanism to retain a portion of the performance fee to guard against subsequent underperformance.

Benefit of investing in a fund with a flexible structure and flexible investment mandate designed to maximise shareholder returns:

- Flexibility to invest in listed and unlisted opportunities based on relative attractiveness.
- Flexibility to provide structured financing solutions rather than investing only in ordinary shares.

Investment Highlights (cont'd)

Gain access to a proven investment strategy

- Identifies the best investment within each industry based on relative value.
- Sector diversified – seeks to manage economic sector bets and thus sector weightings.
- Style agnostic - seeks to avoid focusing on either growth or value investments.
- Diversification
 - target 60-80 stocks with an investment cap of 7.5% in any one company (listed) and up to 50% in any one company (unlisted)
 - portfolio compositionally different to the ASX 250 by both industry sector and stage of development (limited exposure to Banks, Insurance, Media).
- Full investment – cash holdings will typically be less than 10%.

Potential to diversify your portfolio to include actively managed microcap exposure at the right time

- Historically, periods of microcap sector relative underperformance when compared to the S&P/ASX All Ordinaries Accumulation Index, have been followed by periods of outperformance. Analysis shows if the cycle continues microcaps may outperform large caps.

Maximise return on investment through a favourable fee structure

Fees are paid on invested capital and compare favourably to externally managed Small Cap LICs and typical Private Equity fee structures.

Notes

- Returns are calculated from on the gross asset value of the Existing Strategy pre any fees paid to the manager. The unit trust structure set up to implement the Existing Strategy unlike that proposed for ACIF, is not liable to pay Australian income tax. Past performance is not a reliable indicator of future performance. Performance from inception in February 2009 to January 2014.
- On a fully diluted basis as at 31 January 2014
- Based on 50% Broker Firm Offer and 50% General Offer
- As at 31 December 2013.
- Acorn estimate based on Factset, IRESS and ASX data as at 31 December 2013. Calculated by comparing the list of companies within the ASX250 as at 31 December 2013 to its listed status 10 years ago.
- As at 31 January 2014
- Acorn estimate based on ASIC data from 2008

Key Risks

Investment Risks

The Company should not be seen as a predictable, low risk investment. The Company's investments will be in a diversified portfolio of listed and unlisted Microcap Companies and these can be considered as having a higher risk profile than cash, fixed interest or larger capitalised equities. The Company, Manager and Joint Lead Managers do not guarantee the return of capital, any rate of return in terms of income or capital or the investment performance of the Company.

It is not possible to identify every risk associated with investing in the Company. However, the following list sets out the significant risks associated with investing in the Company. There may be other risks associated with investing in the Company. The risks set out in the following table, as well as others described elsewhere in the Prospectus, should be carefully considered in evaluating the Company and its prospects.

The key risks associated with an investment in the Company include:

- Microcap Companies are likely to be heavily reliant on the Company and other investors for access to capital;
- The Management Fee and Performance Fee may create an incentive for the Manager to overstate the value of unlisted investments and/or make investments that are speculative;
- Transactions in unlisted Microcap Companies typically provide less regulation or supervision when compared to transactions in listed Microcap Companies
- The Manager may stop managing the Company's investment portfolio meaning the Company may have to find a new investment manager;
- The Securities and/or the Company's investments declining in value. Investors in the Company are exposed to this risk through both their holding in the Securities and through the Company's investments.
- Falls in equity or bond markets, market volatility or movements in the value of the Australian dollar may materially adversely affect the value of the Companies investments or its shares.
- The Shares may trade on ASX at a discount to the net asset value of the Company's investment portfolio and may have low levels of liquidity;
- The past performance of investment portfolios managed by the Manager, are not a guide to future performance of the Company.

Other Risks

Investors should refer to Section 5 of the prospectus for further risks associated with the offer.

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Disclaimer and Other Important Notes

Morgans Corporate Limited, Baillieu Holst Limited, T.C. Corporate Pty Ltd and Bell Potter Ltd (together, the "Joint Lead Managers") have been appointed to act as Joint Lead Managers by Acorn Capital Investment Fund Limited ("ACIF") and will receive fees for acting in this capacity. The Joint Lead Managers may perform other financial or advisory services for ACIF or may have other interests in or relationships with Acorn, and its related bodies corporate and affiliates.

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