An Update on AVI's Shareholder Campaign at Symphony International Holdings

London - 9 September 2021

Dear Symphony International (SIHL) Shareholders,

We are writing to you today to provide an update on our campaign and a response to Management's recent letter to shareholders.

We first wrote to you on 29 April 2021, setting out our concerns regarding the disastrous returns experienced by shareholders and the chronic conflicts of interest that lie at the heart of the Company that have allowed the situation to persist for far too long.

A copy of that letter can be found here:
https://www.assetvalueinvestors.com/content/uploads/2021/04/Save-Symphony-Letter-Final.pdf

We made serious and, we believe, well-substantiated allegations regarding the governance of the Company and decisions taken by the Board that appeared to place the interests of the Investment Manager above those of shareholders. We went on to detail, *inter alia*, why the so-called "independent" directors cannot be considered anything of the sort; to analyse SIHL's persistently wide discount to NAV and to demonstrate that it is an extreme outlier in the context of other listed investment companies; to calculate the enormous amount of value extracted from the Company by the Investment Manager at the expense of shareholder returns; to show how performance figures had been and continue to be mis-represented in official company publications; and to lay out step-by-step the ways in which we believe the Board and Investment Manager had taken improper actions to avoid the triggering of the discount-contingent wind-up vote in 2017.

Anil Thadani, the key principal at the investment manager, responded with a brief letter to shareholders on 6 May 2021 in which he declared that "*The Board is still carefully considering the information that AVI has publicised, while it formulates appropriate responsive action*."

More than three months later, on 13 August 2021, Mr. Thadani wrote to shareholders in a letter that can be read here:

http://static1.1.sqspcdn.com/static/f/1271582/28459685/1628839743410/Letter+to+Shareholders+FINAL.pdf?token=O%2FcwIYCra1gP2Q%2FgZeIKyQ2YIkM%3D

The letter is awash with disingenuous claims and contains a variety of inaccuracies and inconsistencies. In our view, it is designed to stall shareholders for as long as possible and perpetuate the status quo for management's benefit. We will address and dissect the various statements made by Mr. Thadani in more detail at the end of this letter.

Staggeringly, and despite the amount of time that has now passed, Mr Thadani's letter fails to address essentially all of the serious - and highly detailed - allegations made in our 29 April 2021 letter. We will leave shareholders to draw their own conclusions as to why he has made no attempt to rebut them, and we also remind shareholders of the Board's repeated refusal to appoint a non-conflicted independent law firm to investigate our allegations.

As mentioned in our most recent public update of 11 May 2021, which can be read here: (https://www.assetvalueinvestors.com/content/uploads/2021/05/AVI-Press-Release-response-2021-MAY-10th.pdf, we have written to four financial regulators (The UK's Financial Conduct Authority; The Monetary Authority of Singapore; The BVI's Financial Services Commission; and Hong Kong's Securities and Futures Commission) regarding what we believe to be serious regulatory breaches by the Board of Directors as detailed in our 29 April 2021 letter. Our understanding is that their investigations are still ongoing.

In the last few months, we have become aware of what appears to be an undisclosed relationship between Mr. Thadani and Rajiv K. Luthra, one of the supposedly independent directors who has sat on SIHL's Board since the 2007 IPO and remains a director to this day. It is our understanding that Mr. Luthra has been a director of Lodhi Property Company since 2002. While it was disclosed in the 2007 and 2012 prospectuses that Mr. Thadani was also a director of this company at the time of their publication, Mr. Luthra's list of directorships curiously fails to mention his role on Lodhi Property Company's board. We will be writing to the FCA to update our complaint given this appears to be a breach of the Listing Rules. Conversations with ex-business associates of Mr. Thadani suggest long-standing business relationships between him and Mr. Luthra that pre-date SIHL's 2007 IPO.

Shareholders' Response to AVI's Campaign

At the launch of our campaign, we set out two key objectives:

(i) to ensure all shareholders are fully informed as to our concerns regarding the stewardship of SIHL and the independence of the Board, which in our view is inherently conflicted and whose actions have failed to protect shareholder interests ahead of those of the management team;

(ii) gather together sufficient support (at least 30%, including our own 15.4% stake) to requisition an EGM to consider and approve resolutions to:

   a. remove the current directors; and
   b. replace the Board with new directors willing and able to properly represent the interests of shareholders.

We have been gratified and humbled by the response of fellow shareholders to our campaign. To date, over seventy shareholders previously unknown to us have contacted us to express their frustration with the Board/Manager and their support for our objectives. Across the register, we have a highly material level of support to call upon and are now reviewing our next steps with legal counsel.

We repeat and stand by the point made in our 29 April 2021 letter that, contrary to the understanding of the Board, our legal advice received from a leading QC is that SIHL's Memorandum of Association and Articles do not effectively disapply the fundamental right of shareholders to remove and replace directors.

Mr. Thadani's Letter of 13 August 2021

Before we move on to analysing the contents of Mr. Thadani's letter, we note yet again the poor governance inherent in the Investment Manager (who is also a non-independent director) writing to shareholders given the core of our grievances rests on the apparent lack of independence of the supposedly "independent" directors. Where is the "Independent" Chairman, Georges Gagnebin?

In the chronological order in which they appear in his letter, we respond below to selected comments made by Mr. Thadani.

1. *Mr. Thadani > "In my [6 May 2021] letter, I set out the Board's view regarding the campaign initiated by AVI, and it remains our view that AVI's objectives go against the long-term interests of the Company and would ultimately result in diminished shareholder value."*

As we have made clear in the past, AVI's interests are firmly and 100% aligned with other (non-Management) shareholders. We have been a shareholder for almost nine years and, unlike management, our returns from SIHL derive solely from the value of our shareholding. Our objectives remain for shareholders to replace the current Board with new directors, who would then have a mandate to consult widely with shareholders to build a consensus for the optimal path forward to maximise value.

2. *Mr. Thadani > "While I know that many of you support our vision for the Company, for which the Board remains grateful, I recognise that there are broader questions regarding the Company's strategy in light of the Company's share price discount to net asset value (NAV), which has persisted in spite of our best efforts to reduce it."*

We are intrigued to know how many shareholders Mr. Thadani has spoken to, outside of the directors and those employed by the Investment Manager, who "*support [their] vision for the Company*". We are yet to speak to a single independent shareholder who does.

3. *Mr. Thadani > "The second objective [achieve a more favourable alignment of interests between investors and the Investment Manager than what is typically seen in traditional private equity models] was achieved by….implementing a floor and cap on the quantum of management fees that would be payable to the Investment Manager so that, as the NAV of the business grew over time, the management fees would represent a progressively smaller percentage of the assets under management"*

While we can understand how a cap on the quantum of management fees *could* result in a more favourable shareholder experience, it is unclear to us - and we suspect to other shareholders - how a fee *floor* is of benefit to anyone other than the Manager. We also note the level of net assets at which the cap would kick in was almost double the size of the Company following its 2007 IPO. The 2.25% management fee is the highest base management fee charged to any of the ~400 funds listed on the London Stock Exchange.

4. *Mr. Thadani > "The second objective [achieve a more favourable alignment of interests between investors and the Investment Manager than what is typically seen in traditional private equity models] was [also] achieved by… eliminating the traditional carried interest which amounts to a fixed percentage (usually 20%) of the realised profits of the company being paid to the Investment Manager. Instead, management were granted stock options which could be exercised by paying the same price per share that was paid by Symphony shareholders at the time the options were granted. The idea was that once all the options were exercised, management would be shareholders like each of you and there would be no further*

dilution to investors' returns through any carried interest payments. All such options have since either been exercised or expired."

We explained in detail in our 29 April 2021 letter why the Board and Investment Manager's claims that the options created an alignment were inaccurate and misleading. It is disappointing, albeit not surprising, that Mr. Thadani is continuing with these specious misrepresentations.

At IPO, SIHL's management team were granted, at zero cost, options over 82.8m shares at a strike price of $1 per share. In mid-2012 with the share price in the mid-$0.60s and trading at a deep discount (45-50%) to NAV, the IPO options were hugely underwater. SIHL then launched a rights issue at $0.60, as part of which the management team were granted new options covering 25% of the new shares being issued with a strike price of $0.60. The IPO prospectus had argued that the options provided an incentive for management to grow the NAV/share price and, implicitly, to tackle any discount that emerged on the shares, and that the options therefore resulted in an alignment of interest between the Investment Manager and shareholders. However, what the rights issue showed was that rather than taking action to reduce the discount, the Investment Manager could simply issue more shares and in doing so essentially "reset their high-water-mark" by receiving new options with a strike price set at a deep discount to NAV (and, indeed, at a material discount to the prevailing share price prior to the announcement of the rights issue).

A highly unusual, if not unique, characteristic of the options was their entitlement to receive dividends. In our view this feature further limited any real alignment between the Manager and shareholders. We note that between 2014 and 2018 the Company paid out dividends that increased dramatically in size ahead of the expiry of the out-of-the-money $1 strike options. Once these options had expired in Aug-18, dividend payments were then reduced.

Despite SIHL's share price never trading above the strike price of $1, the Manager received $33m of dividend payments on these options (in addition to the $12m received in dividends paid on the $0.60 strike options). This also provided the Manager with capital to exercise its $0.60 options without having to use their own resources. Indeed, under the terms of the share options, SIHL's share price could have traded below the lower strike ($0.60) on the other set of options for the entirety of their life yet the Manager would still have received the full value of dividend payments paid on them. **Based on the above we consider that there was no true alignment of interests as a result of the Share Options, nor did the Investment Manager bear any risk, with the Share Option providing another route by which the Investment Manager was enriched at shareholders' expense.**

5. *Mr. Thadani > "It is important to state that we retain full and complete confidence in the strength of our investment thesis and believe that this is validated through the sustained growth of the majority of our portfolio companies, with further details [in the Appendix]"*

The table Mr. Thadani presents in the Appendix is of limited value to shareholders given no monetary amounts appear next to each investments and no comparable index returns are provided; the labelling of IRRs as "Net IRRs" is disingenuous given management's "carry" has been in the form of options which detract from shareholders' returns at the NAV per share level rather than at the individual or aggregated investment level; the return figures also ignore the impact of management fees and fund-level expenses; and, in any case, it appears that even the aggregated *pre-fees* returns would trail both the benchmark indices used for comparative purposes.

6. *Mr. Thadani > "Although we are confident of the inherent value and potential of Symphony's underlying assets, we also recognise that investors have not had the liquidity or the share price performance that we had hoped for."*

We welcome Mr. Thadani's belated recognition that shareholders' returns have been unacceptable, although we are curious as to what has triggered this sudden realisation given the issues he describes have existed for many years.

7. *Mr. Thadani > "As shareholders are aware, we have made significant efforts to reduce this discount, which have included: (a) A policy of regular and significant dividend distributions since 2014; and (b) A concerted share buyback program in 2017"*

We rebutted these claims in our 29 April 2021 letter but are happy to do so again. We note large dividends were paid during the period when Management's share options were entitled to receive them, and that the dividends were drastically cut once the options had expired. It is our belief that the 2017 share buyback programme was motivated by Management's self-interest in protecting its fee income rather than a genuine attempt to sustainably reduce the discount to NAV. It is telling that the programme was not renewed once the discount-contingent wind-up vote had been avoided. We continue to believe that the actions taken by the Board are and have been driven by the Investment Manager's interests rather than any benefit accruing to shareholders.

8. *Mr. Thadani > "These returns of capital to shareholders have, of course, had the effect of significantly reducing the NAV. They have also resulted in management fees appearing to represent a larger percentage of NAV, notwithstanding an absolute numerical reduction in such fees. To address this situation, in 2020, the Investment Manager voluntarily reduced the floor on its fee by 25% from US$ 8 million per annum to US$ 6 million per annum."*

Given the base fee remained at 2.25% of net assets, this change to the fee floor amounted to less than a $0.5m annual run-rate reduction based on the net assets at the time of the announcement and **translates to no actual change whatsoever in the management fee at current net asset levels.** If the Manager genuinely wanted to reduce fees in a meaningful fashion, there is nothing preventing them from reducing the base fee from 2.25% which, as outlined earlier, is the highest of all ~400 London-listed investment companies.

9. *Mr. Thadani > "However, as I have noted above, the Board is cognisant that capital returns to date have not sustainably reduced the share price discount to NAV. We are carefully monitoring this share price discount to NAV and are committed to actively exploring other ways to address it.*

   First we will continue actively to pursue opportunities to realise portions of the existing portfolio in order to continue to return capital to shareholders by way of dividends and share buybacks, without unduly prejudicing the Company's ability to make investments that represent value.

Second, we will fully pursue all opportunities to enhance inherent value in the high-quality assets in our portfolio. We expect such eventualities across our portfolio – for example, whether related to our real estate holdings, recent investments in technology enabled businesses or due to strategic interest from prospective international partners in some of our portfolio companies.

Third, the Investment Manager is actively exploring ways to lessen, or eliminate altogether, the fees that Symphony pays to it. The Investment Manager has been focusing on a couple of solutions which will enable it to continue to add significant value to the Symphony portfolio while relieving Symphony of the management fee component, either partially or totally.

These are initiatives we have been working on for some time now and despite the restrictions imposed by the Covid lockdowns, we have continued to make some progress. We will continue to provide further details on these developments and the potential value they create for the Company and its shareholders at the earliest opportunity."

We would advise shareholders to treat these extremely vague "commitments" with the scepticism and contempt that Management and the Board's track record deserves. Nothing in Mr. Thadani's letter has changed our view that shareholders' interests will be best served by the removal of the Board that has presided over such a destruction of shareholder value accompanied by egregious compensation paid out to the Investment Manager.

We look forward to updating you further in the near future.

Yours faithfully,

Tom Treanor, CFA
AVI Director / Head of Research

Asset Value Investors (AVI) is a specialised investment manager in London that has been investing in closed-end funds for over 35 years. AVI was founded in 1985 and has been investing in high quality companies that are under-valued by the stock market for over three decades. AVI's investment team engages with managements and boards of companies to improve long-term corporate value.