AVI Response to Letter from Management of Symphony International Holdings London - 25 October 2021

Dear Symphony International (SIHL) Shareholders,

We are writing to you today in response to a letter from Anil Thadani, the key principal at the Investment Manager of SIHL, published on 8 October 2021.

Read the letter here

We are pleased to see the "Independent" Chairman, Georges Gagnebin, appears to have been finally woken up from hibernation to co-sign the letter alongside Mr Thadani. Shareholders will be relieved to see signs of life. While we had planned for our next communication to be an update on our next steps following widespread shareholder support for our objectives, we cannot let Mr Thadani's latest disingenuous comments remain unchallenged.

Board Independence

Mr. Thadani's continued claims that the "independent" directors are indeed independent are frankly preposterous; fly in the face of clear evidence; betray a fundamental lack of understanding of the most basic tenets of corporate governance and the role of independent directors; and fatally undermine whatever residual traces of credibility he may have left in the eyes of shareholders.

That Mr. Thadani's defence rests in part on the "independent" directors not being involved in the "day-to-day management of the Company" is puzzling. AVI has never suggested otherwise, as the role of an independent director is by definition non-executive. Rather, independent directors are there to provide independent oversight and constructive challenge to the executive directors. There is simply no evidence to suggest SIHL's "independent" directors have ever done this; there is, however, an abundance of evidence that they have been complicit in acting in the interests of the executive directors at the expense of shareholders.

We note Mr. Thadani's comment that "AVI has repeatedly insinuated that the mere fact that the Company's Independent Directors have certain perceived connections with other executives in Symphony, or that they have served on the boards of other companies together or have simply been in office for a prolonged period somehow causes them to lose independence. That is misconceived."

These factors compromising independence were not dreamt up by AVI. The Corporate Governance Code[1] published by the Association of Investment Companies (the AIC), an industry body cited by Mr Thadani himself later in his letter, lists certain "circumstances which are likely to impair, or could appear to impair, a non-executive director's independence" which include whether a director:

[1] https://www.theaic.co.uk/sites/default/files/documents/AIC2019AICCodeofCorporateGovernanceFeb19.pdf

- has, or has had within the last three years, a material business relationship with the company or the manager
- has close family ties with any of the company's advisers, directors or the manager
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- has had tenure for over nine years

We note again that Georges Gagenbin and Rajiv Luthra have served on the Board for fourteen years; that there are long-standing business ties between Mr. Luthra and Mr. Thadani; that Samer Z. Alsaifi is an executive at an investment firm chaired by Mr Thadani; and that, in a display of utter contempt for shareholders, Oliviero Bottinelli replaced his father on the Board. Worse, there has never been any acknowledgement of these links nor any attempts to justify them; indeed, as revealed in our last public letter, it seems Mr. Luthra's business links to Mr Thadani were in fact concealed from shareholders in what appears to have been a breach of the listing rules.

There are numerous examples of how this lack of independence has harmed shareholders, but perhaps one of the most tangible relates to the decision by the Board to declare SIHL's largest ever special dividend in May 2018. If the Board had deferred this special dividend by just three months to beyond the expiry date of the management's otherwise worthless out-of-the-money options, shareholders would be $10m better off (4% of current market cap). We will leave shareholders to form their own views on whether they agree with the "independent" directors that they have "conducted themselves to the highest standards of probity, professionalism, and integrity".

Fees

Mr Thadani claims AVI has "entirely, perhaps deliberately, ignored" the perpetual life nature of SIHL and the Investment Manager's receipt of share options instead of carried interest. On the contrary, our public letters have tackled these points head on. We have made clear that the perpetual life of SIHL makes the Board's failure to tackle the discount all the more egregious (as shareholders have no means to exit at NAV), and we have painstakingly explained that the features of the share options allowed for the enrichment of management without any related requirement to generate any returns for shareholders (as opposed to a carried interest programme under which payments to management are only triggered through achieving realised gains for shareholders).

Mr Thadani points out that the management fee of 2.25% levied on net assets is "**now** the sum total of what is paid to the Investment Manager" [our emphasis]. Well, yes and no. While shareholders should be perhaps be grateful that they are no longer being punched in the face in the form of any further share options being exercised or having dividends paid on them, the 50m+ shares already issued to the Investment Manager via share options/management shares will continue to dilute shareholders' returns into the future.

While seemingly accepting our point that SIHL's 2.25% management fee is the highest of all ~400 funds listed on the London Stock Exchange, Mr Thadani claims that a "better point of reference" may be those funds in the AIC's Private Equity sector[2] and that comparing the ongoing total charges of these funds shows that "Symphony's ongoing charge is certainly not the highest". The fact is that SIHL does not compare favourably to the vast majority of funds in this sector in terms of its ongoing charges, and would stack up far worse if a comparison were made with suitable adjustments for the historic costs of dilution from the Investment Manager's share options. Mr Thadani is perhaps ill-advised to draw shareholders' attention to this group of funds on the AIC's website given it shows SIHL trades at the widest discount and has the second-worst five year share price performance. That said, there are very few funds or peer groups against which SIHL compares favourably in terms of performance or discount.

Shareholder Options

Mr Thadani argues that two-thirds of the share options awarded to the Investment Manager expired unexercised, disingenuously implying that they were worthless and that management derived no benefit from them. What he fails to mention is that dividends totalling $33m were paid out on these options despite SIHL's shares never trading above their $1 strike price.

For the record, while AVI was indeed aware of the features of the share options, we admit it is to our discredit that we failed to assign an appropriately high probability to the Board allowing these features to be exploited to the extent they were to enrich the Investment Manager, and in so doing to remove any semblance of alignment with shareholders. Mr Thadani's claims that AVI supported and advocated for the dividend programme are contradicted by emails we sent to the then-Chairman (unanswered) and Mr Thadani in 2017 calling for the programme to be abandoned in favour of tender offers at NAV. Separately, we had called for an in-specie distribution of the stake in listed Minor International structured in such a way that the share options did not receive any associated payments.

Mr Thadani again claims the Investment Management team is aligned with shareholders by virtue of their shareholding and by the management fee structure "which rewards the Investment Manager when the Company's NAV grows". It should be noted that the Investment Manager's position as it relates to its shareholding in SIHL is different from that of other shareholders in two crucial respects: Firstly, the Investment Manager earns fees (over $9m annually at the current run rate) from a continuation of the status quo; secondly, they can close the discount at any time of their own choosing through certain corporate actions.

The rational (if far from shareholder-friendly or ethical) path for the Investment Manager is to seek to perpetuate the status quo for as long as they are able to so as to perpetuate their fee stream and for them to only seek to close the discount when they forced into doing so. The management fee structure "which rewards the Investment Manager when the Company's NAV grows" disincentivises them from taking actions which would narrow the discount but reduce the NAV. In a properly functioning investment company with sound corporate governance, the independent directors would step in on behalf of

[2] https://www.theaic.co.uk/aic/find-compare-investment-companies?invsec=VDC&sortid=Name&desc=false

shareholders to manage these conflicts and ensure action were taken to narrow the discount. The fact this has not occurred is in itself clear evidence that the company's governance is broken.

Misrepresented Performance

We identified a pattern of misrepresentation of SIHL's relative performance figures which flatter SIHL's reported relative NAV performance. Mr Thadani's defence appears to be that they have been consistent in their reporting and that AVI's expectations for performance reporting conventions are in some way unusual. In fact, our expectations are based on methodologies used by the AIC and requirements set out in the CFA Institute's Global Investment Performance Standards (GIPS). The latter states clearly "total return must be used[3]". We are unaware of any other London-listed fund that reports performance metrics using anything other than this approach. Mr Thadani's reliance on a defence of consistency, i.e. being consistently wrong, is laughable.

Discount to NAV

For Mr Thadani to conclude the 2017 share buyback programme only had a small impact on the discount is again disingenuous. Firstly, it is not possible to know the counterfactual, i.e. where the discount might have been in the absence of the buyback; secondly, it is customary for buyback programmes to remain in place for longer than a single year. We note Mr Thadani also ignores the extremely high return on investment from these repurchases. AVI had been pressing for a buyback programme for several years before it was finally adopted. The fact one was finally introduced as we entered the year of the discount-contingent wind-up vote and that it was abandoned once the vote had failed to be triggered is telling in terms of the Investment Manager's true motivations.

2017 Wind-up Vote

Mr Thadani is, yet again, insulting the intelligence of shareholders when he seeks to downplay what we refer to as the 2017 discount-contingent wind-up vote. A potential vote on a sale of assets amounting to 80% of NAV is rightly regarded as a de facto wind-up vote by all shareholders with whom we have spoken. We stand by our allegations regarding actions seemingly taken by the Board/Investment Manager to avoid triggering the vote, and we note again the Board's refusal to appoint an external independent law firm to investigate the circumstances by which the vote was avoided.

On the specific issue of the write-down of the investment in Christian Liaigre Group (CLG) that helped avoid the vote, we again note our sources suggest that Navis Capital Partners - SIHL's co-investor in CLG - took a write-down of between 5%-8% versus SIHL's write-down which we estimate was ~55%. Mr Thadani's letter is silent on this specific point.

[3] https://www.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-asset-owners.ashx

AVI
Asset Value Investors

Sale of Minor International

Mr Thadani seeks to creates a straw-man defence against our allegations of recklessness regarding the levering up and subsequent forced partial sale of the position in Minor International (MINT). We have never asserted that the COVID-19 pandemic should have been predicted, rather that we questioned the addition of leverage to SIHL's sole listed position which operated in an industry and region that has experienced many and varied crises over the years. The other aspect of our concerns relates to the lack of transparency and the selective disclosure of the circumstances surrounding the forced sale. We note that neither the Chairmen's Statement, nor the Investment Manager's Report contained in the subsequent annual report contained any commentary surrounding the MINT shares disposal. Mr Thadani has not addressed this apparent obfuscation.

Next Steps

We would again like to express our thanks to our fellow shareholders for their support for our campaign. Across the register, we have a highly material level of support to call upon and we continue to review our next steps with legal counsel. We look forward to updating you in due course.

Yours faithfully,

Tom Treanor

AVI Director/Head of Research