

A presentation by
LMS Capital plc

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Introduction

LMS Capital plc is proposing to:

- Change the investment objective and policy to enable the Company to make new investments in the global energy sector
- Form an investment team made up of Tony Hayward and Tom Daniel, together with Robert Rayne and Bernard Duroc-Danner. Julian Metherell will act as a senior adviser to the investment team

This presentation aims to:

- Set out in detail the rationale behind these proposals
- Highlight the experience and skill set of the proposed investment team
- Demonstrate how this team intends to exploit investment opportunities in the global energy industry

The Board of LMS Capital plc considers the change of investment policy to be in the best interests of shareholders and is therefore intending to unanimously recommend that Shareholders VOTE IN FAVOUR of the Resolutions to be set out in the Circular

The Board anticipates that between 30-35% of shares outstanding will have been irrevocably committed from the Rayne family and associated trusts prior to the posting of the circular

The Proposals

The background



The Realisation Strategy

- On 30 November 2011, Shareholders approved an orderly realisation of the assets of the Company with the aim of achieving a balance between efficient return of cash to shareholders and maximising the value of the Company's investments
- At this time, the Company had a market capitalisation of £155m and net assets of £240m
- The Company has returned £115m to Shareholders by way of three tender offers and associated repurchases since the genesis of the realisation strategy

The Change of Investment Policy

- The Board includes members with more than three decades of experience of investing in, and successfully building and operating companies in, the global energy sector
- The Board believes that there are **currently unprecedented opportunities** in the global energy sector and would like to enable LMS to take advantage of them
- The Board is mindful that, as the existing portfolio reduces in size, the management team and costs involved in managing the portfolio, together with need to maintain sufficient working capital requirements, could increasingly impact returns to Shareholders
- For these two reasons, the Company therefore intends to adopt a strategy of active investment in the global energy sector
- The legacy portfolio will continue to be managed and wound down by the existing management team, the majority of the proceeds therefrom will be committed to the new investment strategy
- Furthermore, it is intended that at least £150 million of further equity will be raised within 24 months of the start of the new investment policy. If this capital is not raised in this timeframe, the Board will review the options available to the Company

 **A unique opportunity to create long term value for shareholders**

The Proposals

Enhanced shareholder value

If they become effective, the Board believes that, amongst other things, the proposals will:

- Provide an opportunity for Shareholders to participate in the enhanced investment returns associated with the new investment policy
- Allow the remaining net assets of the Company to continue to be realised in accordance with an optimum timeline of return
- Reduce the winding-up costs of the existing Company structure
- Potentially reduce the discount to NAV at which the shares trade

Top 10 largest investments

Name	Geography	Type	Sector	Date of initial investment	Book value £million
Brockton Capital	UK	Fund	Property	2006	15.2
Medhost Inc	US	Unquoted	Technology	2007	13.3
Weatherford International	US	Quoted	Energy	1984	11.1
Nationwide Energy Partners	US	Unquoted	Energy	2010	10.4
Yes To, Inc	US	Unquoted	Consumer	2008	7.9
Wesupply	UK	Unquoted	B-2-B services	2000	7.5
Penguin Computing	US	Unquoted	Technology	2004	6.6
ICU Eyewear	US	Unquoted	Consumer	2010	6.6
Entuity	UK	Unquoted	Technology	2000	5.0
Opus Capital Venture Partners	UK	Fund	Technology	2006	4.5
Cash ¹	-	-	-	-	25.2
Other	-	-	-	-	22.1
Total investments plus net cash	-	-	-	-	135.4
Capital currently available for investments					36.3

Source: Company interim accounts, 30 June 2015

¹ Value readily realisable and available for investment under the new investment policy

¹ Cash balance has been reduced by the value of the Company's current liabilities and non-current liabilities

 **A source of cash ready to be deployed to the new Investment Policy**

Change of Investment Policy

The opportunity – global energy sector themes

Long term fundamentals for the energy & related industries are compelling

- Economic expansion is driving demand growth: by 2040 global demand for energy is expected to rise by 35% from its 2010 level¹
- Decline rates indicate 30% of current oil & gas production expected to need replacing by 2020²
- The energy industry is undergoing fundamental change – e.g. supply from shale has the potential to more than double from c.4 mnbl/d currently to c.9 mnbl/d by 2025 - causing many industry participants globally to adapt to the evolving business environment³

Severe dislocations caused by recent 60% decline* in global oil price create an optimum investment environment

- Existing industry structure under stress at current oil prices:
 - Over \$1 trillion of cash flow is estimated to have been lost by the sector³
 - Half of all the new presanction projects (61 projects) are uneconomic post the deflation levels we assume, equivalent to >US\$750 bn of capex and 10.5mnbls/d of cumulative peak production³
- Lower oil prices likely to persist, U-shaped recovery likely – “the bottom of the market may still be ahead”⁴
- Turbulent markets & deflationary forces creating compelling, often distressed, investment opportunities
- Cyclical trough offers attractive risk/reward entry point & downside mitigation

Competitive forces highlight attractive, inefficient pockets of value

- Industrial players are focused on cost reduction, fundraising, restructuring & high impact M&A
- Private equity players typically focused on large deals (often deploying > \$300m equity per transaction)
- Intermediaries also focus on the above

 **Investment opportunity stronger than ever, strategic differentiation critical**

* The oil market collapsed by c 60% from its June 2014 highs > \$115/bbl (front month ICE Brent) to below USD46/bbl In Jan 2015 (source: IEA, various)
Source: ¹Exxon Mobil; ²Credit Suisse, Schlumberger; ³Goldman Sachs; ⁴IEA July Monthly Report

Change of Investment Policy

The investment team & senior adviser

Investment team/committee

Tom Daniel



- *20+ years alternative investment experience, in public markets, private equity & special situations*
- *Last six years focused on investment in the natural resources and energy sectors*

Tony Hayward



- *Chairman of Glencore & Genel, former CEO of BP*
- *Leading figure in the global energy industry*

Robbie Rayne



- *Leadership roles (chairman & CEO) of LSE listed investment and real estate business for 30 years*
- *40 years' experience investing in the global energy sector*

Bernard Duroc-Danner



- *Chairman, President, and CEO of Weatherford International plc since 1998*
- *A leading figure in the global energy services industry*

Senior adviser

Julian Metherell



- *Former CEO of Goldman Sachs' UK Investment Bank*
- *25 years' experience in board and operational management, as well as investment execution in the global energy sector*

As part of their commitment to the proposed strategy as investment committee members receiving allocated carried interest, Tony Hayward and Tom Daniel are proposing to **acquire Ordinary Shares to the value of £500,000** within twelve months of the change in investment policy becoming effective

Note: Please see the appendix for more detail on each of the members of the Energy Investment Management Team

How does this team add value?

- Ability to execute transactions, providing capital, know how and certainty of execution to partners and vendors
- Flexible, agile and disciplined decision-making
- Complementary skill set combining;
 - Deep domain expertise
 - Operating expertise
 - Technical expertise
 - A history of working together as a team
- Access to deal flow through senior contacts (CEOs and owners) within global energy & related industries
- Successful investment track record in the sector & private equity/public market investment expertise

Change of Investment Policy

Strategy & investment team alignment

Strategy	Investment themes	Investment team
Resource-based opportunities	<ul style="list-style-type: none"> • Many “smaller” fields capital starved & under managed – LMS offers creative financing structures & access to world class management talent • The hunt for low cost barrels by global majors and E&Ps in general offer attractive exit opportunities: US shale, Kurdistan, Kenya • Consolidation & rationalisation by “super-majors” and other players offer attractive investment opportunities – LMS has direct access to the industry at management, board, CEO and owner levels • Shale expands internationally 	<ul style="list-style-type: none"> • Tony Hayward
Supply chain & services opportunities	<ul style="list-style-type: none"> • Supply chain & services segment under pressure, creating distressed opportunities • M&A and rationalisation offer attractive spin-out, build-up and other opportunities, where market dynamics support a new entrant & stand-alone company. LMS has access to deal flow, offers creative financing structures, and access to world class management talent 	<ul style="list-style-type: none"> • Bernard Duroc-Danner
Private equity approach	<ul style="list-style-type: none"> • Combined 50+ years’ experience of private equity/ alternative investment management & investing in the energy sector 	<ul style="list-style-type: none"> • Robbie Rayne, Tom Daniel

 **The investment team “fits” the investment strategy**

Change of Investment Policy

Investment strategy & portfolio construction

Investment strategy

- Focus on medium-small sized deals in energy & related industries
- Private equity approach, flexibility to invest in private & public markets
- Optimise risk/return profiles through cycles: build vs buy, private vs public markets

Portfolio construction

- Construct a risk diversified portfolio of compelling, downside risk mitigated investments
- Assuming no capital constraints, 10-20 investments, c.£20-40m average investment size. £100m capital commitment equates to 3-4 investments over next 12-24 months
- Core areas: private equity (resource plays, supply chain/OFS spin-outs, build-ups); public equities (smid caps); special situations (royalty deals, credit)
- Investments vetted by investment committee which brings deep industry & investment experience

Deal flow

- Self generated, unique off-market deal flow - access management talent & orphan assets
- Broad industry networks - wide and proprietary access to deals
- Value add: investment, operational, technical & financial skills

 **Differentiated & focused strategic positioning; disciplined investment process**

Change of Investment Policy

New structure



Board composition

- Nick Friedlos will step down from the Board when the new investment policy becomes effective, but will continue to oversee realisation of the Legacy Assets
- Tony Sweet will remain on the Board as an executive director with a focus on cost reduction – aiming to eliminate legacy costs associated with the self-managed structure within 12 months
- In order to meet the independence requirements for closed-ended investment funds in the Listing Rules, two additional independent non-executive directors will be appointed to the Board before the Company implements the new investment policy
- The Company will announce these appointments when they are made
- On implementation of the new investment policy, St James’s Asset Management will be given board observer rights

Management structure

- The Company is proposing to appoint Frostrow Capital LLP, an independent investment company, as its external alternative investment fund manager
- This appointment is subject to FCA approval, which the Company and Frostrow Capital LLP expect to be forthcoming
- Frostrow Capital LLP will delegate key elements of its portfolio management functions to St James’s Asset Management

Investment trust status

- The Company intends to apply to HMRC for approval as an investment trust
- The advantage of obtaining investment trust status is that, for each accounting period for which the Company continues to be approved by HMRC as an investment trust, the Company will be exempt from UK taxation on its capital gains
- The Company is intending to qualify as an investment trust in respect of its accounting period commencing on 1 January 2015 and its accounting periods commencing thereafter

Change of Investment Policy

Timeline



Timeline

Timing	Phase	Objectives	Legacy portfolio
Aug-15	<ul style="list-style-type: none"> Approval of new investment policy 	<ul style="list-style-type: none"> Reposition to execute new strategy 	
12 months to Sep-16	<ul style="list-style-type: none"> Proof of concept phase 	<ul style="list-style-type: none"> Invest in 2-3 energy deals Cost reduction exercise completed 	
Q4-16 & 12 months	<ul style="list-style-type: none"> Fundraising 	<ul style="list-style-type: none"> Expense base normalised to a management fee of 2% and carried interest of 20% over a hard 5% hurdle Discount narrowed Raise capital based on case studies of the 2-3 deals done 	

Change of Investment Policy

Fees and carried interest



Management fees

- Under the Portfolio Management Agreement, St James's Asset Management is entitled to an annual fee of the higher amount of 2% of the Company's committed capital and assets under management in respect of the Energy Assets, or £2.1 million
- This fee (as well as certain other agreed costs until a further successful fundraising is completed) is payable by the Company on a monthly basis
- A £2.5m termination fee shall be payable to St James's Asset Management in the event that the Company is not able to raise further capital within the next 24 months

Carried interest

- Carry will be calculated based on the Energy Assets. Gains on the Legacy Assets will not be subject to the carry arrangements
- Carry will be allocated based on both **realised and unrealised gains**
- Carry will be calculated by reference to changes in NAV at the end of each financial year, and will only be allocated in respect of a financial year in which there is an increase in NAV
- If the increase is such that that the end of year NAV is at least as high as the amount equal to the highest NAV in any previous year plus any contributions made by the limited partners subsequent to the relevant year, any such increase will be allocated first to the Company until the aggregate amount allocated to the Company is equal to a **preferred return of 5 per cent.** per annum
- Further returns would then be allocated (subject to certain adjustments) **80% to the Company and 20% to the Carry LP**

Change of Investment Policy

In conclusion

Successful track record

- Successful investment track record in the energy & related sectors
- Investment team have complementary skill sets and broad industry networks
- Deep domain expertise
- Tony Hayward, Julian Metherell and Tom Daniel have worked together for a number of years, as have Robbie Rayne and Bernard Duroc-Danner

Abundant investment opportunities

- Industrial players restructuring & M&A forcing divestment of non-core assets
- Experienced & seasoned management teams, with share options underwater, looking for entrepreneurial opportunities

Structural upside for shareholders

- Access to potentially market leading returns sourced by leading players in the global energy space
- Reduce the costs associated with the wind down of the vehicle in its current form
- Potentially reduce the discount to NAV at which the shares trade

 **Investors offered diversified exposure to energy & related industries, at the optimal time, with a quality team, and the liquidity of listed stock**

Appendix

Management biographies

Investment team/committee – Tom Daniel

20+ years alternative investment experience, in public markets, private equity & special situations, last 6 years focused on investment in the natural resources and energy sectors

Mr Daniel is a member of St James's Asset Management LLP ("SJAM"). Between Aug 2009-March 2014 he was portfolio manager & a director of the St James's Master Fund ("SJMF"), a long/short equity hedge fund, focused primarily on the natural resources and energy sectors

- SJMF track record*: **14% net IRR or net 1.7x multiple on cost**, over 4 years between Aug 2009 (launch) & Aug 2013 (final audit/redemption value date)

Together with Tony Hayward, Julian Metherell and Nat Rothschild, co-founded Vallares PLC, an acquisition company focused on the oil & gas sector. Leadership role in the establishment and IPO in June 2011 of Vallares PLC, together with its acquisition in November 2011 of Genel Energy, the largest oil and gas company in the Kurdistan region of Iraq

Prior to founding Vallares, Mr. Daniel advised a diverse range of clients on alternative investments, including between July 2010-April 2011, Vallar Advisers LP, the Adviser to Vallar PLC, an acquisition company focused on the natural resources sector; and between 2005-2010 various investment holding companies and funds in respect of public market & private equity investments

Mr. Daniel held various leadership roles with Schroder Ventures entities, from 1998-2005, including serving as one of five senior officers (designated "General Partners"), responsible for two private equity funds and one LSE listed investment trust. SV track record**: **gross 1.7x multiple on cost**, in respect of investments for which Mr. Daniel was responsible. From 1994-1998, Mr. Daniel was an Associate of Domain Associates and Charles River Ventures, both US-based venture capital management companies

Mr. Daniel holds an MBA from Harvard Business School and an MA from Oxford University

Investment team/committee – Tony Hayward

Leading figure in the global energy industry

33 years' experience in board, operational management and investment experience in the global energy industry

Chairman Glencore (2013- present) - one of the world's largest mining and commodity trading businesses

Chief Executive of Genel Energy between 2011- 2015 (currently Chairman); the largest producer of oil (300 mbd gross) and largest holder of reserves and resources in the Kurdistan region of Iraq. One of the largest independent producers of oil on the LSE. Production growth 40% (cagr) over the last two years

Founder of Vallares plc - LSE listed \$2.1bn SPAC established in June 2011, acquired Genel Energy through an all share merger (50/50) in November 2011

Chief Executive BP plc (2007-2010) Repositioned BP's portfolio through major new access deals in Iraq, Oman, Libya and the acquisition of Devon Energy's international business in Brazil

Chief Executive BP Exploration and Production (2002-2006). Established major new production centres in GoM, Trinidad, Indonesia, Angola and Azerbaijan

BP Treasurer and Head M&A (1999-2002). Responsible for acquisition of Burmah Castrol, Veba and creation of TNK-BP

Investment team/committee – Robbie Rayne

Leadership roles (Chairman & CEO) of LSE listed investment and real estate businesses for 30 years and has over 40 years' exposure to investing in the energy sector

Until 2006 he was a director and chief executive of London Merchant Securities plc, a large FTSE250 LSE listed real estate and investment company

In 2006/2007 he restructured London Merchant Securities. The investment division was spun out to form a separate fully listed company LMS Capital, of which he is a director and his family interests are the largest shareholders. The real estate business was merged with another similar sized business to form Derwent London, the largest London focused commercial property REIT, with a market capitalisation now of some £4bn. He is chairman of Derwent London.

Robbie has invested in many asset classes over his career but with a focus on Energy, Real Estate and Technology

Robbie's investment activities in the energy sector started with Century Power and Light an early North Sea exploration company. He was a founder investor in The Apalachian Company which morphed into Energy Ventures and then Weatherford International, where he is the Senior non Executive Director.

He has also been involved in many other energy companies including Carless Capel & Leonard, Grant Prideco (a spin out from Weatherford), American Aero/Titan Cranes, ITS and most recently Energy Cranes - an investment which produced an IRR in excess of 20% and approximately 3X money*

Robbie's exposure to the sector both as a long term public company director and as an active venture/private equity investor has given him an extensive network and visibility on developments in the sector and deal flow

Investment team/committee – Bernard Duroc-Danner

Chairman, President and CEO of Weatherford International plc since 1998. A leading figure in the global energy services industry.

Dr. Bernard J. Duroc-Danner is Chairman of the Board, President and Chief Executive Officer of Weatherford International plc, one of the largest global providers of innovative mechanical solutions, technology and services for the drilling and production sectors of the oil and gas industry. Weatherford operates in over 100 countries and employs more than 45,000 people worldwide.

Dr. Duroc-Danner was directly responsible for the 1987 startup of EVI, Inc., in the oilfield service and equipment industry. EVI at inception had no business, no operations and a negligible value. He directed the growth of EVI which later became Weatherford.

EVI and Weatherford were built over 28 years with a combination of more than 200 acquisitions and organic growth with industrial fit as its guiding principle. In 1998, EVI, Inc., acquired Weatherford Enterra and adopted the new name of Weatherford International, Inc. Today, Weatherford International's revenue has grown to over US \$10 billion. In 2000, Weatherford dividended Grant Prideco to its shareholders and Grant traded separately on the New York Stock Exchange. To date, in spite of the recent cyclical decline in the value of the stock due to the adverse conditions in the oil markets, value creation from inception in 1987 averages out to a CAGR in excess of 15% over 28 years*

Dr. Duroc-Danner has served on a number of different oilfield service and equipment, oil & gas, and energy boards. He is also a member of the National Petroleum Council and the Society of Petroleum Engineers.

His family has been in the oil business for two generations. Before forming EVI, Inc., Dr. Duroc-Danner held positions at Arthur D. Little Inc. and Mobil Oil Inc.

He holds a Ph.D. in Economics from Wharton, University of Pennsylvania.

Senior adviser – Julian Metherell

25 years' experience in board and operational management and investment execution in the global energy industry

Julian Metherell spent twenty two years in investment banking primarily focussing on advising companies operating in energy related sectors. He was a director of Kleinwort Benson's European energy business prior to moving to Goldman Sachs in 1999. He has extensive experience of M&A and capital raising in the global energy industry and has advised many of the world's leading companies across a broad range of geographies. He was made a Partner of the Firm in 2006 and was CEO of the UK Investment Banking Business

In 2011 he retired from Goldman Sachs and joined Tom Daniel and Tony Hayward as a Founder of Vallares. They successfully raised \$2.1bn and merged the vehicle with Genel Energy, a private Turkish company to form a leading, UK E&P company listed on the London Stock Exchange

From 2011 to May 2015 Julian was an executive director and chief financial officer of Genel Energy plc

Julian sits on the boards of Gaslog, a NYSE listed LNG shipping business and Euronav, a Belgium/ NYSE listed crude transportation business