16 October 2019

CRYSTAL AMBER FUND LIMITED

(“Crystal Amber Fund” or the “Fund”)

Monthly Net Asset Value

Crystal Amber Fund announces that its unaudited net asset value (“NAV”) per share at 30 September 2019 was 222.31 pence (31 August 2019: 224.06 pence per share).

The proportion of the Fund’s NAV at 30 September 2019 represented by the ten largest shareholdings, other investments and cash (including accruals), was as follows:

Ten largest shareholdings	Pence per share	Percentage of investee equity held
Hurricane Energy plc	46.2	5.2%
Northgate plc	38.2	8.2%
Equals Group plc	35.2	21.6%
GI Dynamics Inc.	30.6	71.4%**
De La Rue plc	16.8	6.9%
STV Group plc	12.7	8.3%
Allied Minds plc	9.3	6.9%
Leaf Clean Energy Co	6.6	25.3%
Board Intelligence Ltd*	5.7	*
Kenmare Resources plc	4.1	1.5%
Total of ten largest shareholdings	205.4	
Other investments	16.4	
Cash and accruals	0.5	
Total NAV	222.3	

*Board Intelligence Ltd is a private company and its shares are not listed on a stock exchange. Therefore, the percentage held is not disclosed.

** Following the exercise of warrants on 30 September.

Investment adviser's commentary on the portfolio

Over the quarter to 30 September 2019, NAV per share fell by 10.8%, or 9.8% adjusting for the 2.5p dividend paid in August.

The top three positive contributors to NAV growth over the quarter to 30 September 2019 were GI Dynamics Inc (2.5%), Leaf Clean Energy Co (1.0%) and STV Group plc (0.5%). Top detractors were Equals Group plc (-6.0%), Hurricane Energy (-4.0%) and De La Rue plc (-1.9%).

Hurricane Energy plc ("Hurricane")

Since achieving first oil on 4 June 2019, the company has been producing from its two Lancaster wells. The reservoir has performed at the higher end of expectations. Initiatives are under way to increase production over the next two years. For example, the reactivation of the gas compression system will enable gas export and increase the production vessel's throughput.

Over the period, Hurricane drilled and tested two new wells at its Great Warwick Area, funded by Spirit Energy as part of their farm out deal. The Warwick Deep found hydrocarbons in the target fractured rock, but oil did not flow at commercial rates. The Lincoln Crestal produced oil at commercial rates and will be tied back in 2021 to the Lancaster Early Production System (EPS). This will allow production appraisal and generate additional cash flows at little additional capital expenditure. One final exploration well is currently underway.

The excellent results from the EPS have materially de-risked the company. Whilst the Fund is disappointed that Hurricane's shares fell by 18.9% over the period, we are encouraged by management's focus on growing cash flows. The operational initiatives in progress and the addition of the Lincoln Crestal well to the EPS could see production grow from 2020's guidance of 17k barrels of oil per day to 30k in 2021. Assuming an oil price of US$60 per barrel, the base case guidance for operating cash flow could grow from $200m in 2020 to $300m in 2021. In our view, those cash flows will underpin the optionality that Hurricane will have to plan its future development.

Northgate

Having instigated the departure of previous Chairman Andrew Page, the Fund welcomes the appointment of Avril Palmer-Baunack as his successor, and her initiation of a strategic review "focused on clarifying the significant intrinsic value of Northgate".

At 325p, Northgate's shares trade at a substantial discount to the company's reported net tangible asset value of 412p per share as at 30 April 2019.

Northgate's well-managed Spanish business, which generates over half of the group's operating profit, is the clear leader in its market with a strong brand, good geographic coverage and an attractive return on assets. Its performance has benefited from a prolonged macroeconomic recovery, unaffected by Brexit-related uncertainty. Over the course of several years, the considerable value of the Spanish business has not been reflected in Northgate's share price, and the Fund believes that the company should now prioritise releasing the value of this asset.

The Fund believes that Northgate Spain would be particularly attractive to a number of multinationals currently attempting to increase their presence within the European flexible vehicle rental market. The business would be worth more to these companies than it is to Northgate plc and its UK public equity shareholder base, given synergies such as lower fleet financing costs, ability to grow an established flexible rental platform across a larger geographic market, operational flexibility to move and dispose of vehicles across several left-hand drive countries, and vehicle procurement savings.

Over the last three years, Northgate Spain has delivered an average ROCE of 11.6%. Northgate considers its post-tax cost of capital to be 5.5%, which is higher than those of its larger and more diversified peers able to operate with greater leverage. If the Spanish business were worth to an acquirer a conservative 30% premium to net asset value (equating to a premium of 16% to total asset value), then a disposal could release over £300m of proceeds net of debt repayments. At the current share price, investors in Northgate would then be paying less than one third of net asset value for the residual UK and Ireland businesses.

Over the quarter, Northgate's share price fell by 5.0%, or by 1.6% including the 12.1p dividend paid.

De La Rue

On 23 July 2019, the UK Serious Fraud Office announced the commencement of an investigation into De La Rue and its associated persons in relation to suspected corruption in the conduct of business in South Sudan. This caused the share price to fall by 22% over the subsequent two days.

Notwithstanding this unwelcome development and the company's disappointing results announcement, the Fund continues to believe that De La Rue enjoys both strong competitive positions in high return businesses and a range of attractive growth opportunities. The company's total order book grew by 20% over the last financial year and its security features revenue increased by 38%.

In the Fund's view, De La Rue has suffered from very poor leadership and oversight, which has resulted in an unacceptable financial performance over many years, despite tailwinds from most of the company's end-markets and the consequent benefits evidently enjoyed by its competitors.

In recent weeks, a new Chairman and new Chief Executive have been appointed. There is early evidence that the new Chief Executive will adopt a focused and sensible approach targeted at rebuilding the value of De La Rue's banknote business and capitalising on the opportunities presented by its high-growth, high-margin authentication activities. The new Chairman has also made clear his determination to ensure that the business adheres to the highest standards and practices.

De La Rue's pension liabilities were restructured during its 2017/18 financial year. This, in conjunction with the disposal of two businesses for over £100m, has substantially strengthened the balance sheet. Net debt, adjusting the latest announced figures for the disposal of International Identity Solutions, is only £66m, which equates to less than one times forecast EBITDA.

De La Rue also has obvious strategic value, as evidenced by the takeover approach from its competitor Oberthur in 2010, at a valuation of around two times annual revenue. Crane Currency, another banknote producer, was itself acquired in 2018 for US$800 million, which also equated to around two times expected annual revenue. De La Rue is currently trading at an enterprise value of less than one times expected revenue.

Over the quarter, De La Rue's share price fell by 26.7%, or by 21.2% including the 16.7p dividend paid.

Allied Minds

On 6 August 2019, HawkEye 360, one of Allied Minds' top-four portfolio companies, announced it had raised US$70 million at a valuation more than double its September 2018 round. The Fund believes that this fundraising added at least 8p to Allied Minds' net asset value per share, after accruing for the Phantom Plan.

On 24 September 2019, Allied Minds announced the sale of its stake in HawkEye 360 for US$65.6m, which represents the first successful exit in the 13 years since the company commenced investing. Disappointingly, the sale reduced net asset value per share by about 3p, as it was discounted by more than 13% from the valuation of the fundraising agreed one month earlier. Furthermore, despite having ceased all new company investment activity, Allied Minds' management proposes to return only half of the proceeds to shareholders. Astonishingly, the sale will trigger a cash payout of almost US$5m out of the remaining proceeds to current and former executives of Allied Minds under the Phantom Plan, despite its shareholders having suffered a drop of around 90% in the share price over the four years since it first invested in HawkEye 360.

On 4 September 2019, Federated Wireless, another of the top-four portfolio companies, announced it had raised US$51 million at a valuation more than 20% higher than its September 2017 round, adding around 3.5p to Allied Minds' net asset value per share. Federated Wireless received regulatory approval for its Initial Commercial Deployment on 16 September, allowing it to launch its Citizens Broadband Radio Service (CBRS) offering and begin to generate meaningful revenues.

Notwithstanding the recent news regarding HawkEye 360 and Federated Wireless, the Fund notes that the share price of Allied Minds continues to trade at a very material discount to its estimated net asset value. Following the closure of Precision Biopsy (a company that received at least $26m of funding from Allied Minds) and the disposal of HawkEye 360, the portfolio will consist of only seven investments, one of which has already been written to zero. This makes it all the more difficult to comprehend the increase in the company's guidance for ongoing HQ cash operating costs (which excludes other costs such as severance, share-based payments and Phantom Plan payouts) from US$5-6m as announced on 26 April 2019, to US$7.5m as stated on 26 September 2019.

Over the quarter, Allied Minds' share price fell by 27.9%. The Fund believes that the scale of the share price discount has still not been addressed by the board of Allied Minds and therefore intends to take appropriate action.

Transactions in Own Shares

During the quarter, the Fund issued 125,000 shares to five charities following the authority granted at its last Annual General Meeting.

The Fund bought back 1,260,000 of its own ordinary shares at a price of 192.56p per share during the quarter, as part of its buyback programme.

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