

# Watermark Absolute Return Fund - B Class

## Product Disclosure Statement

ARSN 631 094 534  
APIR ETL5025AU  
Issue Date 1 June 2021

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This is the Product Disclosure Statement ("PDS") for the Watermark Absolute Return Fund (ARSN 631 094 534) (the 'Fund') and was issued on 1 June 2021. This PDS has been prepared and issued by Equity Trustees Limited (ABN 46 004 031 298 AFSL 240975) in its capacity as the Responsible Entity of the Fund (referred to throughout this PDS as the "Responsible Entity", "Equity Trustees", "us" or "we"). The investment manager of the Fund is Watermark Funds Management Pty Ltd and is referred to throughout this PDS as 'Watermark' or 'Investment Manager'. The Administrator of the Fund is Link Fund Solutions Pty Limited (ABN 44 114 914 215) and is referred to throughout this PDS as 'Link Fund Solutions' or 'the Administrator'.

The Responsible Entity has authorised the use of this PDS as disclosure to investors and prospective investors who invest directly in the Fund, as well as investors and prospective investors of an investor directed portfolio service, master trust, wrap account or an investor directed portfolio service-like scheme ("IDPS"). This PDS is available for use by persons applying for units through an IDPS ("Indirect Investors").

The operator of an IDPS is referred to in this PDS as the "IDPS Operator" and the disclosure document for an IDPS is referred to as the "IDPS Guide". If you invest through an IDPS, your rights and liabilities will be governed by the terms and conditions of the IDPS Guide. Indirect Investors should carefully read the IDPS Guide before investing in the Fund. Indirect Investors should note that they are directing the IDPS Operator to arrange for their money to be invested in the Fund on their behalf. Indirect Investors do not become unitholders in the Fund or have the rights of unitholders. The IDPS Operator becomes the unitholder in the Fund and acquires these rights. The IDPS Operator can exercise or decline to exercise the rights on an Indirect Investor's behalf according to the arrangement governing the IDPS. Indirect Investors should refer to their IDPS Guide for information relating to their rights and responsibilities as an Indirect Investor, including information on any fees and charges applicable to their investment. Information regarding how Indirect Investors can apply for units in the Fund (including an Application Form where applicable) will also be contained in the IDPS Guide. Equity Trustees accepts no responsibility for IDPS Operators or any failure by an IDPS Operator to provide Indirect Investors with a current version of this PDS as provided by Equity Trustees or to withdraw the PDS from circulation if required by Equity Trustees.

Please ask your adviser if you have any questions about investing in the Fund (either directly or indirectly through an IDPS).

This PDS is prepared for your general information only. It is not intended to be a recommendation by the Responsible Entity, Investment Manager or any associate, employee, agent or officer of the Responsible Entity, Investment Manager or any other person to invest in the Fund. This PDS does not take into account the investment objectives, financial situation or needs of any particular investor. You should not base your decision to invest in the Fund solely on the information in this PDS. You should consider the suitability of an investment in the Fund in view of your personal financial circumstances, investment objectives and needs. You may want to seek advice before making an investment decision.

Equity Trustees, the Investment Manager, and each of their respective employees, associates, agents and officers do not guarantee the success, repayment of capital or any rate of return on income or capital or the investment performance of the Fund. Past performance is no indication of future performance. An investment in the Fund does not represent a deposit with or a liability of Equity Trustees, the Investment Manager, or any of their associates. An investment is subject to investment risk, including possible delays in repayment and loss of income or

capital invested. Units in the Fund are offered and issued by the Responsible Entity on the terms and conditions described in this PDS. You should read this PDS in its entirety.

The offer made in this PDS is available only to persons receiving this PDS in Australia or New Zealand (electronically or otherwise). If you received this PDS electronically we will provide a paper copy free upon request during the life of this PDS. The PDS is available on [www.eqt.com.au/insto](http://www.eqt.com.au/insto) or you can request a copy free of charge by calling Equity Trustees on +613 8623 5000.

The forward looking statements included in this PDS involve subjective judgment and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Equity Trustees, the Investment Manager and each of their respective officers, employees, agents and associates. Actual future events may vary materially from the forward looking statements and the assumptions on which those statements are based. Given these uncertainties, you are cautioned to not place undue reliance on such forward looking statements.

In particular, in considering whether to invest in the Fund, you should consider the risk factors that could affect the financial performance of the Fund. The key risk factors affecting the Fund are summarised in section 6.

Unless otherwise stated, all fees quoted in the PDS are inclusive of Goods and Services Tax ('GST') after allowing for an estimate for Reduced Input Tax Credits ('RITCs'), and all amounts are in Australian dollars.

Information in this PDS that is not materially adverse is subject to change from time to time. We may update this information. You can obtain any updated information:

- by calling Watermark on +61 2 9252 0225; or
- by visiting Watermark website at [www.wfunds.com.au](http://www.wfunds.com.au).

A paper copy of the updated information will be provided free of charge on request.

## **New Zealand investors warning statement**

(a) This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 (Aust) and regulations made under that Act. In New Zealand, this is subpart 6 of the Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

(b) This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 (Aust) and the regulations made under that Act set out how the offer must be made.

(c) There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime.

(d) The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

(e) Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

(f) The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

(g) If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

(h) The offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

(i) If you expect the financial product to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

(j) The dispute resolution process described in this offer document is available only in Australia and is not available in New Zealand.

## 1. Fund at a glance

	Summary	For further information
Name of the Fund	Watermark Absolute Return Fund	Section 5
ARSN	631 094 534	Section 5
APIR	ETL5025AU	Section 5
Investment objective	The Fund aims to deliver positive absolute returns in excess of the benchmark, with a focus on capital preservation.	Section 5
Investment strategy and investments held	The Fund is an actively managed long/short equity strategy, focused on companies listed on the Australian Securities Exchange (ASX).	Section 5
Benchmark	RBA cash rate	
The type(s) of investors for whom the Fund would be suitable	Investors who are looking for capital growth and income while hedging equity market risk.	Section 5
Recommended investment timeframe	At least 5 to 7 years. The minimum suggested investment timeframe for the Fund is 5 years. We recommend that you consider, with your financial adviser, the suggested investment period for the Fund in relation to your own financial circumstances. You should review this regularly to ensure that the Fund continues to meet your investment needs.	
Minimum initial investment	Not Applicable	Section 7
Minimum additional investment	Not Applicable	Section 7
Minimum withdrawal amount	Nil	Section 7
Cut off time for applications	Not Applicable	Section 7
Cut off time for withdrawals	2:00pm (Australian Eastern Standard Time) on the last Business Day of each month for that month's unit price.	Section 7
Valuation of the Fund's assets	The Fund's assets are normally determined monthly.	Section 7
Applications	Not Applicable	Section 7
Withdrawals	Accepted monthly. Withdrawal requests are generally processed and paid within 21 days of acceptance of a withdrawal request although a longer period of time is permitted under the Constitution.	Section 7
Income distribution	Determined semi-annually at the end of June and at the end of December and normally paid to investors within 21 days of the period end. You may elect to have your distribution reinvested or directly credited to an account in your name held at a branch of an Australian domiciled bank	Section 7
Management fees and costs	1.30% p.a. of the NAV of the Class. An amount of 1% p.a. of the management fees component of management fees and costs is not payable for a period of 12 months following the first issuance of units in the Fund.	Section 9
Withdrawal fee	The lesser of 2% of NAV per unit; or 2 cents per unit in the Class redeemed, payable for a period of 12 months following the first issuance of units in the Class.	
Entry fee/ exit fee	None	Section 9
Performance fee	20.5% p.a. (including GST net of RITC) of the increase in NAV of the Class which exceeds the benchmark, subject to a high-watermark.	Section 9

## 2. ASIC Benchmarks

The Fund is a 'hedge fund' for the purposes of Australian Securities and Investments Commission ("ASIC") Regulatory Guide 240 ("RG 240"). The following table and the tables in Sections 1 and 3 set out a summary of the disclosure ASIC requires for hedge funds, the key features of the Fund and a guide to where more detailed information can be found in this PDS. A copy of RG 240 dated October 2013 (as may be amended, supplemented or replaced from time to time) is available from [www.asic.gov.au](http://www.asic.gov.au).

The information summarised in the relevant tables and explained in detail in the identified section reference is intended to assist investors with analysing the risks of investing in the Fund. Investors should consider this information together with the detailed explanation of various benchmarks and principles referenced throughout this PDS and the key risks of investing in the Fund highlighted in Section 6 of this PDS.

ASIC Benchmark	Is the benchmark satisfied?	Summary	For further information
<b>Benchmark 1: Valuation of assets</b>			
This benchmark addresses whether valuations of the Fund's non-exchange traded assets are provided by an independent administrator or an independent valuation service provider.	Yes	<p>Equity Trustees has appointed an independent administrator, Link Fund Solutions, to provide administration services for the Fund, including valuation services.</p> <p>The Fund satisfies Benchmark 1 by having its non-exchange traded assets independently valued by the Administrator in accordance with its pricing policy.</p> <p>Over-the-counter ("OTC") Derivatives are generally valued by reference to the counterparty settlement price which is based upon broad financial market indices.</p>	Section 5
<b>Benchmark 2: Periodic reporting</b>			
This benchmark addresses whether the Responsible Entity of the Fund will provide periodic disclosure of certain key information specified by ASIC on an annual and monthly basis.	Yes	The Responsible Entity will provide periodic disclosure of certain key information on an annual and monthly basis.	Section 8

### 3. Disclosure Principles

	Summary	Section (for further information)
<i>Investment strategy</i>	<p>The Fund's investment strategy is a Long/Short (variable beta) equity strategy and seeks to provide positive absolute returns, in excess of the benchmark, with a focus on capital preservation.</p> <p>Watermark conducts detailed, fundamental analysis of companies listed on the Australian Securities Exchange (ASX) and industries within which they operate, seeking to identify mispriced securities. The Fund may hold Long or Short positions to profit from these mispricing opportunities.</p> <p>In addition, Watermark will use short selling and Derivatives to adjust the Fund's net exposure to the share market.</p> <p>The specific risks of investing in the Fund are described in Section 6.</p>	Section 5
<i>Investment manager</i>	<p>Equity Trustees Limited, as Responsible Entity of the Fund, has appointed Watermark Funds Management Pty Ltd as the Investment Manager of the Fund. Established in 2003 by Justin Braitling, who has over 26 years' experience managing portfolios of Australian and international shares, Watermark comprises a team of dedicated and experienced investment professionals based in Sydney.</p> <p>Under the Investment Management Agreement between Watermark and Equity Trustees, Equity Trustees can terminate Watermark's appointment where Watermark becomes insolvent, materially breaches the agreement, ceases to carry on its business or in certain other circumstances. In the event that Equity Trustees terminates the Investment Management Agreement following one of these events, Watermark's appointment would cease upon any termination date specified in the notice, and Watermark would be entitled to receive fees in accordance with the agreement until the effective date of termination.</p>	Section 4
<i>Fund Structure</i>	<p>The Fund is an unlisted Australian unit trust registered under the Corporations Act as a managed investment scheme.</p> <p>The responsible entity of the Fund is Equity Trustees Limited. Equity Trustees Limited may appoint service providers to assist in the ongoing operation, management and administration of the Fund.</p> <p>The key service providers to the Fund are:</p> <ul style="list-style-type: none"> <li>• Watermark Funds Management Pty Ltd, the investment manager of the Fund;</li> <li>• Link Fund Solutions Pty Limited, the administrator of the assets of the Fund;</li> <li>• Morgan Stanley &amp; Co. International plc and UBS AG are the prime brokers of the Fund; and</li> <li>• Morgan Stanley &amp; Co International plc and UBS Nominees Pty Limited (a sub-custodian appointed by UBS AG) are the custodians of the assets of the Fund.</li> </ul> <p>See Section 5.3 for further information on other key service providers, Equity Trustees' role in monitoring the performance of service providers and a diagram of the flow of funds through the Fund.</p>	Section 5.3
<i>Valuation, location and custody of assets</i>	<p>Link Fund Solutions Pty Limited is the administrator of the Fund and provides administrative, accounting and transfer agency services. The Administrator is responsible for calculating the Fund's assets.</p> <p>Morgan Stanley &amp; Co International plc and UBS Nominees Pty Limited (a sub-custodian appointed by UBS AG) are the custodians and provides custodial services.</p> <p>See Section 5.4 for further information on the custodial arrangements and the geographical location of the Fund's assets.</p>	Section 5.4
<i>Liquidity</i>	<p>The Fund invests predominantly in liquid assets and is expected to be liquid for the purposes of the Corporations Act.</p>	Section 5.5

	Summary	Section (for further information)
<i>Leverage</i>	<p>The Fund does not intend to borrow funds for investment. Rather, leverage is created as the proceeds from short selling borrowed securities are reinvested in the Long portfolio. Leverage in the form of short selling is used to hedge the market risk of the Long portfolio.</p> <p>The Fund's expected level of leverage is measured by the sum of the gross exposure levels of its Long and Short portfolios. At its maximum level (which Watermark has never reached in respect of any of the companies or funds it manages), for every \$1 of investors' capital, the Fund may invest \$2 in Long positions and \$2 in Short positions. Historically, Watermark has maintained an average gross exposure in respect of any of the companies or funds it manages of between 150-300%.</p>	Section 5.6
<i>Derivatives</i>	<p>The Fund may use exchange traded Derivatives and over-the-counter Derivatives including SPI futures which may be volatile and speculative. Derivatives may be used to hedge physical positions, gain market exposure to underlying securities or for other portfolio management purposes.</p> <p>The types of Derivatives that may be used from time to time and the allocation ranges for both Derivatives and the Fund's other asset classes are set out in Section 5.2.</p> <p>All of the Fund's Derivatives counterparties must have, in Watermark's reasonable opinion, sufficient expertise and experience in trading such financial instruments.</p>	Section 5.8
<i>Short selling</i>	<p>Short selling is undertaken by the Fund as part of the investment strategy, to generate positive absolute returns and to hedge market risks. The Fund engages in Short selling by borrowing securities from the Prime Broker and selling those securities on the market, in the expectation that their price will fall. By re-purchasing the securities at a lower price and returning them to the Prime Broker, the Fund generates a profit.</p> <p>Shorts are also a hedge for the Fund's Long positions whereby, if there is a major set-back, for the share market, losses on Long positions are offset by gains on Short positions.</p> <p>Short sales can involve greater risk than buying a security. The risks associated with short selling and the ways in which Watermark will seek to mitigate those risks are set out in Section 5.7.</p>	Section 5.7
<i>Withdrawals</i>	<p>Monthly.</p> <p>Withdrawal requests must be received by 2pm on the last Business Day in order to receive the month's unit price.</p> <p>See Section 7 for more information on making a withdrawal.</p>	Section 7

## 4. Who is Managing the Fund?

### The Responsible Entity

#### Equity Trustees Limited

Equity Trustees Limited ABN 46 004 031 298 AFSL 240975, a subsidiary of EQT Holdings Limited ABN 22 607 797 615, which is a public company listed on the Australian Securities Exchange (ASX: EQT), is the Fund's responsible entity and issuer of this PDS. Established as a trustee and executorial service provider by a special Act of the Victorian Parliament in 1888, today Equity Trustees is a dynamic financial services institution which continues to grow the breadth and quality of products and services on offer.

Equity Trustees' responsibilities and obligations as the Fund's responsible entity are governed by the Fund's constitution ("Constitution"), the Corporations Act and general trust law. Equity Trustees has appointed Watermark as the investment manager of the Fund. Equity Trustees has appointed a custodian to hold the assets of the Fund. The custodian has no supervisory role in relation to the operation of the Fund and is not responsible for protecting your interests.

### The Investment Manager

#### Watermark Funds Management Pty Ltd

Watermark is an active, high conviction investor in Australian public companies. As an absolute return investor, Watermark offers an alternative to traditional institutional funds.

Established in 2003 by Justin Braitling, Watermark comprises a team of dedicated and experienced investment professionals based in Sydney.

Watermark conducts detailed fundamental analysis of Australian companies, seeking opportunities to invest in businesses with sound economics on occasions when they are undervalued by the share market. By constructing a portfolio of shares in these companies, Watermark seeks to deliver superior returns to investors over time.

Watermark's primary goal is the identification of mispriced shares - Watermark looks to buy the shares of good companies at an attractive price. In addition to this, opportunities exist to sell (short) the shares of businesses that are fundamentally challenged when Watermark believes these shares are overvalued.

Watermark seeks to take advantage of such opportunities, allowing investors to profit from the mispricing of shares in all segments of the market, not just from buying undervalued shares but from selling (short) overvalued shares as well.

This differentiates Watermark to traditional managers who invest on a long term "buy and hold" basis, a strategy that is more dependent on a rising share market.

Alternative investment strategies employed by Watermark are more active in seeking to profit from the mispricing of shares and are less reliant on share market appreciation. Watermark's investment process provides greater flexibility in managing market risk through the cycle as 'shorts' are a natural hedge for the Fund's investments when share markets fall.

The key individuals who will manage the Fund are listed below. Each of the listed investment professionals will devote a substantial proportion of their time executing the Fund's investment strategy.

#### *Justin Braitling - CIO*

Justin has over 26 years' experience investing in Australian and international securities. Prior to establishing Watermark in 2003, Justin spent 10 years as an investment analyst and portfolio manager with the successful equities team at Bankers Trust.

#### *Daniel Broeren - Sector Head*

Daniel covers the Consumer, Retail, Gaming, Industrial and Leisure sectors. He joined Watermark in October 2018. Prior to this, he was a Portfolio Manager at Invesco Australia, with responsibility for the Invesco Small Companies Fund. Daniel has over 15 years' experience in financial markets, including 5 years as Head of Consumer Research at RBS (CIMB). Daniel has a Masters Degree in Accounting and Applied Finance and a Bachelors Degree in Engineering from RMIT University.

#### *Harry Dudley - Sector Head*

Harry joined Watermark in November 2018. Prior to this, he was an Equity Analyst with Macquarie Equities, focusing on Australian banks, Infrastructure and Technology. Harry began his investing career in 2013 with IFM Investors in the role of Credit Analyst, before moving to a Research Analyst role with Evans & Partners. Harry holds a Bachelor of Commerce, is a CFA Charterholder and is a Member of the Institute of Chartered Accountants Australia.

### The Administrator

#### Link Fund Solutions Pty Limited

The Responsible Entity has appointed Link Fund Solutions Pty Limited to act as administrator for the Fund. In this capacity, the Administrator performs all general administrative tasks for the Fund, including keeping financial books and records and calculating the Net Asset Value of the Fund.

The Responsible Entity has entered into an administration agreement with the Administrator, which governs the services that will be provided by the Administrator.

The Investment Manager may at any time, in consultation with the Responsible Entity, select any other administrator to serve as administrator to the Fund.

### The Prime Brokers and Custodians

#### Morgan Stanley & Co International plc and UBS AG

The Responsible Entity has appointed Morgan Stanley & Co International plc as custodian and prime broker of the Fund and appointed UBS AG as prime broker and UBS Nominees Pty Limited (appointed by UBS AG) as custodian of the Fund. The custodians' role is limited to holding the assets of the Fund as agent of Equity Trustees. The custodian does not make investment decisions in respect of the assets, has no supervisory role in relation to the operations of the Fund and has no liability or responsibility to investors.



## 5. How the Fund Invests

### 5.1 Investment objective

The Fund will aim to deliver positive absolute returns in excess of the benchmark, with a focus on capital preservation.

### 5.2 Investment strategy

#### What is a Long/Short (Variable Beta) Equity Fund?

A Long/Short (variable beta) fund seeks opportunities to take positions (either Long or Short) in mispriced securities, while taking advantage of the natural hedge between the Long and Short Portfolios. The Fund may hold cash and Watermark may use Derivatives or other financial instruments, to adjust the Fund's net exposure to the security market, which will vary according to Watermark's view on the outlook for the securities market and the value on offer.

In order to achieve the investment objective, Watermark conducts detailed, fundamental research on companies listed on the ASX, and the industries within which they operate. This analysis seeks to identify mispriced securities with the potential to provide attractive, risk-adjusted returns. Watermark constructs both a Long and Short Portfolio, comprising its best fundamental investment ideas, broadly diversified across sectors and market capitalisation segments.

Separately, Watermark uses top down analysis of economies and asset markets to identify longer-term trends in order to adjust the Fund's net exposure to the security market. In simple terms, when Watermark believes there are elevated risks in security markets it will increase the amount of Hedging in place to reduce the Fund's net exposure. Conversely, if Watermark believes there is compelling value on offer in the security market, or where the outlook for securities is buoyant, it can increase the Fund's net exposure to take advantage of this.

Typical Portfolio settings for the Fund are outlined later in Section 5.

#### Investment Philosophy

Watermark believes successful investing requires the following skills:

- an ability to evaluate the true worth of a business and the management charged with running it;
- an understanding of how and why securities come to be mispriced; and
- an appreciation of the risks that can undermine the investment case.

Employing these skills, the best investment opportunities arise when securities in strong, well-managed businesses can be purchased on attractive terms. These businesses typically have the following characteristics:

- a history of superior returns through the economic cycle;
- management with a track record of creating and distributing value to security holders; and
- the capacity to grow.

Consistent with these same principles, in selecting securities to Short sell Watermark will sell the securities of businesses with weak fundamentals on occasions when Watermark believes they are overvalued. In populating the Long Portfolio with strong businesses which are undervalued and the Short Portfolio with

weak businesses that are overvalued, the value of the combined Portfolio should appreciate over time.

Watermark believes Investors can benefit from Long/Short investing in three key ways:

- they access a further source of potential returns through mispriced shorts;
- they access an attractive source of additional funds, in the form of Short proceeds; and
- they benefit from the natural Hedge in the structure, whereby the impacts of exogenous forces on the security market are mitigated.

These benefits are designed to allow Watermark to take full advantage of mispricing opportunities across the value spectrum while retaining less market risk.

#### Investment Process

Watermark conducts detailed fundamental analysis of Australian industries, seeking opportunities to profit from the mispricing of listed securities. A summary of the investment process for the Fund is set out below.

##### *Security selection – Long Portfolio*

Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources. Once identified, investment opportunities are screened by Watermark to ensure they are of an investment grade. A full qualitative assessment of the proposed investment is completed to establish whether the business is of a suitable quality and attractively priced.

##### *Qualitative review*

Once a suitable investment opportunity has been identified, a full review of financial performance will be completed. This is usually followed by a meeting with management to further develop an understanding of the business and the management philosophy.

Where possible, representatives of Watermark will also meet with suppliers, regulators, competitors and customers to gauge the competitive environment. An overall qualitative scorecard is compiled for each security. A ranking of investment ideas by score along with conviction will determine security weightings in the final Portfolio construction.

##### *Security Selection – Short Portfolio*

Short selling is an important part of Watermark's strategy. Watermark employs a similar security selection process to that outlined above, but is looking for the opposite. Watermark believes the best "shorting" opportunities are found in businesses with weak fundamentals where those securities can be sold for more than they are worth. When targeting securities to borrow and sell (Short) for the Portfolio, Watermark will seek to identify entities with:

- a history of inferior returns;
- management with a poor track record;
- businesses operating in highly competitive industries that are struggling to grow; and
- securities that are expensive on a range of valuation measures.

## Portfolio Construction

The Fund will have two portfolios; a Long Portfolio and a Short Portfolio. The weighting of individual positions in each Portfolio will be loosely correlated with each security's qualitative scorecard and the level of conviction around the individual investment case.

Watermark will construct the Portfolio for the Fund utilising its best individual investment ideas, with the highest conviction, while retaining a bias in favour of good, well-managed businesses to buy (Long), and weaker businesses to sell (Short).

Watermark will also look to construct well diversified Portfolio across sectors and industries and will typically hold between 40-80 positions in each of the Long and Short portfolios.

The Fund will predominantly hold securities listed on the ASX however, it may also hold up to 20% of its gross exposure in international securities, in sectors such as mining and resources where Watermark has industry expertise. Where Watermark invests in international securities, it will aim to broadly manage the Fund's exposure to currency movements by balancing Long and Short exposures in foreign currencies.

The Fund's uninvested capital will be retained in cash or cash equivalents with the Prime Broker or an Australian bank. The Fund may hold instruments other than cash such as hybrid equity, debt or fixed interest securities although it has not done so in the Fund's history.

The table below sets out the investment guidelines for the Fund.

Asset Class	Allocation range
Securities listed on the ASX	Up to 400% of the Fund's capital but typically between 150-300%
Securities listed on any other licensed securities market with regulation and disclosure requirements comparable to the ASX	Up to but typically less than, 20% of the value of each of the long and short portfolios
Listed warrants and options	Up to 200% of the Fund's capital but typically zero
Bills of exchange, promissory notes or other negotiable instruments accepted, drawn or endorsed by any bank, Australian governments or corporations of at least an investment grade credit rating	Up to 100% of the Fund's capital but typically zero
Cash or cash equivalents	Up to 110% of the Fund's capital
Debentures, unsecured notes and bonds of a corporation or government of at least an investment grade credit rating	Up to 150% of the Fund's capital but typically zero
Units or interests in cash management trusts	Up to 110% of the Fund's capital
Any other financial products which Watermark may use in the management of the Fund's portfolio in accordance with its Australian financial services licence	Up to 200% of the Fund's capital but typically zero
Exchange traded derivatives, such as Share Price Index Futures	Up to 100% of the Fund's capital but typically zero
OTC derivatives, such as Interest Rate or Foreign Exchange Swaps	Up to 50% of the Fund's Capital but typically zero

## Risk management

### Risk philosophy

Risk management sits at the heart of the investment process, playing both a defensive role in helping Watermark avoid losses in a leveraged structure as well as an offensive role in identifying Shorts where risks are often mispriced.

Whilst many investment managers view risk in the context of underperforming the share market, Watermark considers risk as the prospect of capital loss. Watermark believes that capital loss is best avoided by investing in the shares of well managed companies with sound economics when they are undervalued by the share market. By constructing a Portfolio of these shares Watermark seeks to maximise the 'embedded value' of the Fund's assets, thus minimising the prospect of loss. As Short Positions are a liability on the Fund's balance sheet, the principles are the same but in reverse. Watermark seeks to minimise the value of the liability by selling weaker businesses on occasions when they are overvalued.

Watermark considers risk from both a bottom-up and top-down perspective. The bottom-up analysis employs a proprietary risk scoring methodology and considers risk at a security level while the top-down assessment considers risk at a Portfolio level.

### Risk factors

**Concentration risk:** Watermark's goal is to have well diversified Long and Short Portfolios populated with a broad range of investment ideas. The Fund will typically have between 40-80 Positions in each of its Long and Short Portfolios. Sizes of individual Positions are monitored closely based on market capitalisation and liquidity measures to avoid concentration risk.

**Sector bias:** A key source of risk in a Long/Short Portfolio is sector bias between Portfolios. It is essential that both Long and Short Portfolios contain shares taken from a broad distribution of sectors.

Watermark's company research database is segmented into four large sector groups: financials; defensives; cyclicals and resources. Each of these sectors can be further defined into industries with similar dynamics. In total there are twenty seven industry groups making up these four sectors. Watermark intends to construct Long and Short Portfolio with a broad representation of industries across these sectors. The gross exposure to individual sectors and the net sector weights will be monitored on an ongoing basis.

**Size bias:** The Portfolio will be constructed across the full size-spectrum. Watermark categorises the securities market by company size (larger companies, smaller companies and micro-cap companies). The Fund is expected to hold between 40-70% of its gross exposure in the shares of the 100 largest

companies listed on the ASX, with the balance in smaller companies. Watermark will aim to have a balance in terms of Long/Short exposures to large and small companies, to ensure there is no material size bias in the overall portfolio structure.

**Factor bias:** Factor risks are reviewed separately. Growth, value, volatility, beta, currency and other factor biases are considered.

**Risk monitoring**

Watermark maintains a proprietary scoring system to ensure Portfolios are built around the best individual investment ideas with the highest conviction, while retaining a bias in favour of strong, well-managed companies to buy (Long), and weaker businesses to sell (Short). The scoring system incorporates business quality, management quality, valuation and risk.

The risk score incorporates a number of qualitative and quantitative elements including financial leverage, earnings visibility, business transparency and earnings quality.

**Leverage and Short Positions**

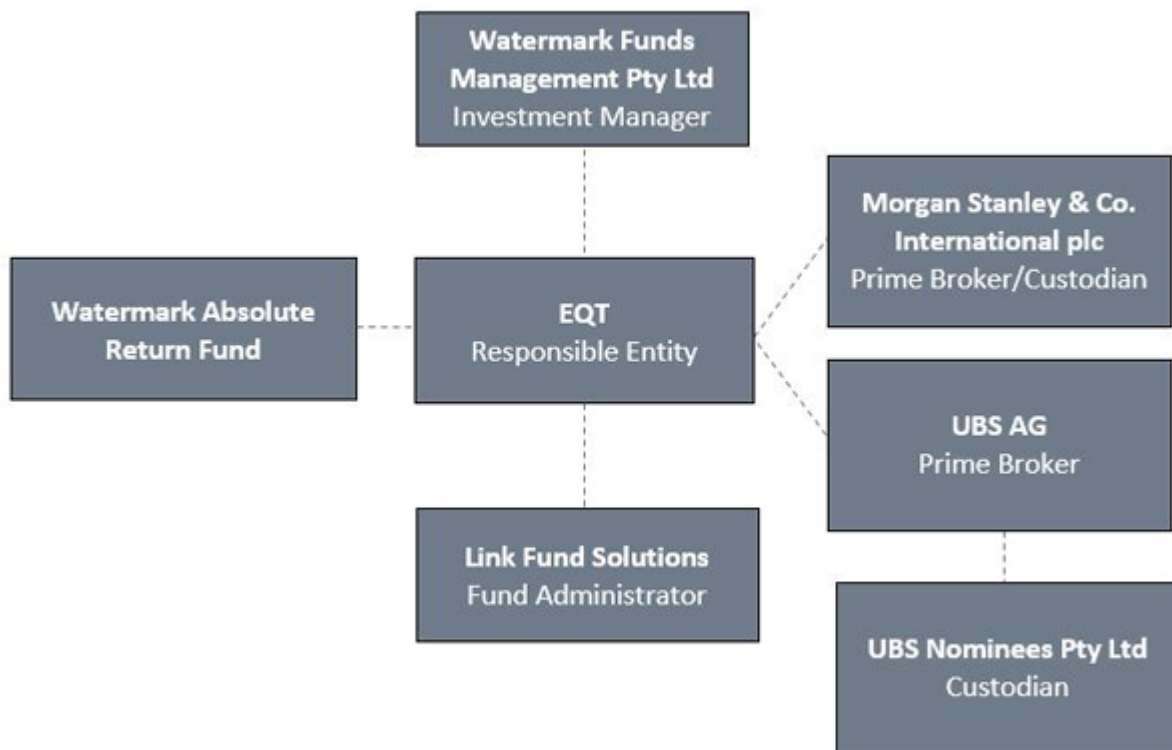
Leverage in the form of Short selling will be used to minimise market risk in the Portfolio. Watermark does not intend to borrow funds for investment.

**5.3 Fund Structure**

**Investment structure**

The Fund is an unlisted registered managed investment scheme. In general, each unit in the Fund represents an individual's interest in the assets as a whole subject to liabilities; however it does not give the investor an interest in any particular asset of the Fund. The Responsible Entity is responsible for the operation of the Fund.

The diagram set out below shows the Fund's structure and the entities involved in the Fund's structure, all of whom are located in Australia.



**Service providers**

As at the date of this PDS, the service providers to the Fund are:

**Investment Manager:** Watermark Funds Management Pty Ltd is responsible for managing the investments of the Fund. For further details on Watermark's role please refer to Section 4.

**Custodians:** UBS Nominees Pty Ltd (a sub-custodian appointed by UBS AG) and Morgan Stanley & Co. International plc holds the assets of the Fund on behalf of the Responsible Entity.

Leverage through Short selling can magnify gains in the Portfolio but will also magnify losses. With a view to managing this risk, total market exposure or gross exposure (the sum of the Long and Short Positions combined as a percentage of unit holders' capital) will not exceed 400% and will typically fall within a range of 150-300%.

**Counterparty risk**

Watermark will seek to minimise counterparty risk to which the Fund is exposed via its prime broking and banking arrangements. Withdrawing cash from the Prime Broker after taking account of margin and collateral requirements and placing funds in term deposits with an Australian bank, Watermark reduces the Fund's exposure to the risks associated with the Prime Broker becoming insolvent.

**Administrator:** Link Fund Solutions Pty Limited provides fund accounting and valuation of the Fund's assets to the Responsible Entity in connection with the Fund.

**Prime Brokers:** Morgan Stanley & Co. International plc and UBS AG provide prime brokerage services for the Fund.

The service providers engaged by the Responsible Entity may change without notice to investors. Risks relating to the use of third party service providers are outlined in Section 6.

The Responsible Entity has entered into service agreements with the service providers and will, with the assistance of Watermark, regularly monitor the performance of the service providers against service standards set out in the relevant agreements.

#### 5.4 Valuation, location and custody of assets

UBS Nominees Pty Limited and Morgan Stanley & Co. International plc will provide custody services for the assets of the Fund including documents of title or certificates evidencing title to investments, held on the books of the Prime Broker as part of its brokerage function in accordance with the terms of the customer documents. Assets held by UBS Nominees Pty Ltd and Morgan Stanley & Co. International plc as Custodian are located in Australia. The Custodian may appoint sub-custodians, including a member of the UBS Group, for such investments. Sub-custodians will be appointed to hold assets located in jurisdictions other than Australia.

Equity Trustees and Watermark do not have any policy for the geographic location of any asset.

The Fund's assets are denominated in Australian dollars, except for international securities which are denominated in the local currency of the country where the market on which the securities are listed, is located. Link Fund Solutions Pty Limited is the Administrator and is responsible for valuing the Fund's assets. The value of such assets will be determined as follows:

- The value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash dividends, interest declared or accrued and not yet received, all of which are deemed to be the full amount thereof, unless in any case the same is unlikely to be paid or received in full, in which case the value thereof is arrived at after making such discount as may be considered appropriate in such case to reflect the true value;
- Securities listed on a recognised securities exchange or dealt on any other regulated market will be valued at their latest available prices, or, in the event that there should be several such markets, on the basis of their latest available prices on the main market for the relevant security;
- The value of non-U.S. equity securities (foreign equity securities) is generally determined based upon the last sale price on the foreign exchange or market on which it is primarily traded and in the currency of that market as of the close of the appropriate exchange or, if there have been no sales during that day, at the latest bid price. The Administrator has determined that the passage of time between when the foreign exchanges or markets close and when the Fund computes its Net Asset Values of the Fund could cause the value of foreign equity securities to no longer be representative or accurate, and as a result, may necessitate that such securities be fair valued. Accordingly, for foreign equity securities, the Fund may use an independent pricing service to fair value price the security as of the close of regular trading on the New York Stock Exchange. As a result, the Fund's value for a security may be different from the last sale price (or the latest bid price);
- In the event that the latest available price does not, in the opinion of the Administrator, truly reflect the fair market value of the relevant securities, the value of such securities will be defined by the Administrator based on the reasonably foreseeable sales proceeds determined prudently and in good faith

Investors are allocated units in the Fund. Each of these units represents an equal undivided interest in the Fund. The unit price of the units will be calculated by the Fund's administrator

on a monthly basis, by dividing the NAV by the total number of units on issue on that day. For subscriptions, the transaction buy spread of 0.30% referred to in Section 9 is added.

#### 5.5 Liquidity

The majority of assets which will be traded and held by the Fund are liquid. The Responsible Entity and Watermark expect that the Fund will be able to realise at least 80% of the Fund's assets, at the value ascribed to those assets in the most recent calculation of Net Asset Value of the Fund, within 10 Business Days. In circumstances where certain assets held by the Fund are illiquid it may not be possible to sell these assets or to do so in sufficient time to pay withdrawals and the consequences should this occur. The sale of assets in the context of processing a withdrawal may also be impacted by counterparty risk which is discussed in further detail in section 6.

It is unlikely that Liquidity issues will result from withdrawal requests. Generally, it is Watermark's policy to ensure that the Fund remains liquid as the size of the Fund grows.

#### 5.6 Leverage

The Fund does not borrow funds for investment. Rather; leverage is created as the proceeds from Short selling borrowed securities are reinvested in the Long Portfolio. Unlike financial leverage where the liability has a fixed value, the value of the borrowed securities that have been Short sold will typically move up and down along with the value of the Long Portfolio in response to movements in the broader share market: i.e. there is a natural Hedge between assets and liabilities in this structure.

In simple terms, because the Fund's gross exposure (equalling the sum of Long and Short positions) is greater than the amount of investors' capital, leverage is created. Unlike financial leverage however, the leverage is to the security selection success of the Investment Manager only.

As an example of how leverage works in the Fund:

The Investment Manager receives \$100 of capital from investors which is placed on deposit with the Prime Broker/Custodian or with an Australian bank. The Investment Manager then Short sells securities with a value up to \$100, creating a liability on the balance sheet. The proceeds of the short sales are invested in a Long Portfolio of securities that Watermark prefers creating an asset also worth \$100. In this example, the Fund will have a gross exposure to mispriced securities of 200% of investors' capital with a net market exposure of zero.

Leverage through Short selling can magnify gains in the Portfolio but can also magnify losses. With a view to managing this risk, total market exposure or 'gross exposure' (the sum of the Long and Short positions combined as a percentage of unit holders' capital) will not exceed 400%. The level of gross exposure is a product of the number of positions held and the size of those positions. Under the Fund's investment guidelines gross exposure of the Fund will typically be between 150-300%.

#### 5.7 Short selling

A Short sale occurs when the Fund borrows a security from the Fund's Prime Broker and sells the security to a third party, generating cash proceeds. The Fund will reacquire the same security on market and return it to the lender to close the transaction. The Fund makes a profit if the price of the borrowed security declines in value in the period between the short sale of the security and when the borrowed security is reacquired. Conversely, the Fund will suffer a loss if the borrowed security increases in value during this period. While the time period for borrowing securities to short sell may not be fixed, the Prime Broker may on rare occasions recall the securities and the Fund must acquire them on-market to close the transaction. See Section 6 for more detail.

Short selling involves greater risk than buying a security, as losses can continue to grow to the extent that the price of a security rises. The risk of losses associated with the purchase of a security is generally restricted at most to the amount invested, whereas losses on a Short position can be greater than the purchased value of the security. Whilst Short selling can often reduce risk since it may offset losses on Long Positions, it is also possible for Long Positions and Short Positions to both lose money at the same time.

Watermark will seek to manage the risks associated with Short selling in a number of ways:

- by using its fundamental research process to identify stocks to sell Short, which are weaker businesses, with poor management and which are over-priced relative to the Investment Manager's assessment of their intrinsic value;
- by constructing a diversified Portfolio of Short Positions across a broad range of sectors and industries, thereby reducing the risk that Portfolio returns will be dependent on the performance of an individual stock, sector or industry;
- by managing the size of the Fund's short Positions, also ensuring that individual Positions do not account for an unacceptable amount of risk in the short Portfolio; and
- by limiting cash retained by the Prime Broker in accordance with margin/collateral requirements. Cash withdrawn from the Prime Broker is held on deposit with an Australian Bank, thereby reducing the Fund's exposure to the risk of capital loss in the event that the Prime Broker became insolvent. See Section 6 for details on counter-party risk.

## 5.8 Derivatives

### Purpose and rationale

The Fund may use exchange traded Derivatives and over-the-counter Derivatives including SPI futures which may be volatile and speculative. Derivatives may be used to hedge physical positions, gain market exposure to underlying securities or for other portfolio management purposes.

### Types of Derivatives

The Fund can invest in financial Derivatives, including equivalent cash settled instruments, which are traded on an exchange and/or non-exchange traded Derivatives instruments dealt in on an OTC basis. The underlying instruments include, but are not limited to: financial indices, interest rates, foreign exchange rates or currencies.

## Criteria for engaging counterparties

Watermark will seek to enter into contractual arrangements with institutional counterparties that are subject to prudential supervision.

## 5.9 Labour standards and environmental, social and ethical considerations

Decisions about the selection, retention or realization of investments for the Fund are primarily based on company and industry fundamentals. Watermark takes into account labour standards, environmental, social or ethical issues when making these decisions to the extent that these issues have a material impact on either investment risk or return. Watermark believes that certain environmental, social and corporate governance ("ESG") issues may impact the sustainable value of businesses. In exercising its authority as Investment Manager of the Fund, Watermark integrates ESG factors into its investment process and ownership practices to the extent that the integration of such factors is consistent with the investment objectives and the economic interests of the Fund.

## 5.10 Withdrawals

Withdrawal requests are generally processed within 21 days of acceptance. Please see section 7 for further details on applications and withdrawals.

## 5.11 Fund performance

Fund performance can be obtained by contacting Watermark on +61 2 9252 0225 or visiting the Watermark Funds Management website [www.wfunds.com.au](http://www.wfunds.com.au). Past performance is not indicative of future performance. The Responsible Entity and Watermark do not guarantee the success, repayment of capital or any rate of return on income or capital or the investment performance of the Fund.

## 6. Managing Risk

Investment in any fund carries risks, including volatility of returns and permanent loss of capital. Volatility refers to the degree to which returns may fluctuate around their Long-term average. Each asset class, whether it is cash, fixed interest, property, Australian or international shares has associated investment risks and the return achieved by each will vary accordingly.

You should be aware that an investment in the Fund contains risk and neither the performance of the Fund nor the security of your investment is guaranteed by the Responsible Entity or Watermark. Investments in the Fund are generally subject to risks, including possible delays in the payment of withdrawal proceeds, and loss of income and/or capital. The following discussion of certain risk factors does not purport to be an exhaustive list or a complete explanation of all the risks involved in an investment in the Fund. Investors should seek professional advice about the risks involved in investing in the Fund and how it might impact on their individual financial circumstances.

### Equity funds general risk

The value of the securities the Fund holds, directly or indirectly, may decrease in response to the activities of an individual company or in response to general market, business and economic conditions. Conversely, the value of the Fund's Short sale liabilities may increase as a result of the same factors. In each case, the Fund's unit price may decrease.

### Investment Strategy Risk

The success and profitability of the Fund depends almost entirely on the ability of Watermark to construct a Long Portfolio of securities that outperforms a Short Portfolio of securities. While the Short Portfolio acts as a Hedge for the Fund's Long investments, there is a risk that losses are incurred on the Long and Short Portfolios at the same time. The performance fee may create an incentive for Watermark to make investments that are riskier or more speculative than would be the case in the absence of a fee based on the performance of the Fund.

### Short-Selling Risk

In order to establish a Short position, Watermark must borrow securities to Short-sell. In theory, Short-selling is subject to an unlimited risk of loss, as there is no limit on how much the price of a security may appreciate. There is a risk that the securities lender may recall the securities in which case the Fund may be obliged to re-purchase the securities at a higher price than that for which the security was sold, thereby crystallizing a permanent loss.

### Leverage Risk

Whilst the Fund will not use financial leverage to increase the size of its Portfolio, reinvestment of the funds raised in Short-selling securities may result in the Fund having a gross exposure to securities that is greater than unit holders' capital. As such, there is a risk that the Fund will behave like a leveraged Portfolio, where fluctuations in the value of the Fund's Portfolios and the potential for loss are magnified.

### Investment Manager Risk

With a variable net exposure to the share market which is expected to be less than 50% on average, fund returns in a Long/Short investment strategy will depend less on the underlying performance of the share market and more on Watermark's success in selecting stocks to buy and Short-sell. As such, there is a risk that changes in key personnel of Watermark may negatively impact Fund performance.

### Market risk

The Fund's Portfolios will be constructed so as to minimise market risks. During a general downturn in the securities markets, multiple asset classes may decline in value

simultaneously. Certain events may have a negative effect on the price of all types of investments within a particular market. Conversely, in a strong share market, the Fund may underperform rising securities market indices.

### Counterparty Risk

The Fund uses the service of a Prime Broker to facilitate the lending of securities to Short-sell. Until the Fund returns a borrowed security, it will be required to maintain assets with the Prime Broker as collateral. As such, the Fund may be exposed to certain risks in respect of that collateral including that the Fund:

- will be required to post initial margin/collateral to the counterparty in the form of cash. The Fund will need to have sufficient liquid assets to satisfy this obligation;
- may from time to time, if the value of Short positions move against it, be required to post variation margin/collateral with the counterparty on an ongoing basis. The Fund will need to have sufficient liquid assets to satisfy such calls, and in the event it fails to do so, the counterparty may have a right to terminate such arrangements; and
- may be subject to the credit risk of the counterparty. In the event the counterparty becomes insolvent at a time it holds margin/collateral posted with it by the Fund, the Fund will be an unsecured creditor and will rank behind other secured creditors. In the event of insolvency of the Custodian or the Prime Broker, the Fund may not be able to recover the entire value of the relevant securities, these risks may impact the ability of the Responsible Entity to satisfy withdrawal requests.

### Liquidity risk

Investments that trade less can be more difficult or more costly to buy, or to sell, than more liquid or active investments. It may not be possible to sell or otherwise dispose of illiquid securities both at the price and within a time period deemed desirable by Watermark.

### Small cap stock risk

Stocks of smaller companies involve greater risk than those of larger, more established companies. This is because smaller companies may be in earlier stages of development, may be dependent on a small number of products or services, may lack substantial capital reserves and/or do not have proven track records. Small cap companies may be more adversely affected by poor economic or market conditions, and may be traded in low volumes, which may increase volatility and Liquidity risks.

### Portfolio turnover risk

The Fund does not intend to trade, directly or indirectly, Portfolio securities for the purpose of realizing Short term profits. However, Watermark will adjust the Fund's Portfolio as considered advisable in view of prevailing or anticipated market conditions and the Fund's investment objective, and there is no limitation on the length of time securities must be held, directly or indirectly, by the Fund prior to being sold. Portfolio turnover rate will not be a limiting factor and will vary from year to year. Higher Portfolio turnover rates involve correspondingly higher transaction costs, which are borne directly or indirectly by the Fund. In addition, the Fund may realize significant Short term and Long-term capital gains.

### Derivatives Risk

The Fund may use exchange traded Derivatives and over-the-counter Derivatives which may be volatile and speculative. The value of a Derivative contract may fall as a result of an adverse movement in the underlying asset or index. Losses can be magnified where a greater exposure is created through the Derivative position than is backed by the assets of the Fund.

Derivatives may also be subject to Liquidity risk and/or counter-party risk. Depending on market conditions Derivative positions can be costly or difficult to reverse.

A counter-party may also be required to take collateral from the Fund's assets to support a Derivatives contract. Therefore, there is a risk that if the counterparty becomes insolvent, the Fund's assets may not be returned in full.

**Pandemic and other unforeseen event risk**

Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of

events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on the economies and financial markets either in specific countries or worldwide and consequently on the value of the Fund's investments. Further, under such circumstances the operations, including functions such as trading and valuation, of the Investment Manager, Fund Manager and other service providers could be reduced, delayed, suspended or otherwise disrupted.

## 7. Issuance and Withdrawing

### Issuance of units

Shareholders who are eligible to participate in the scheme of arrangement between Australian Leaders Fund Limited (ACN 106 845 970) (ALF) and ALF shareholders will receive units in the Fund at an exchange ratio of one unit in the Fund for every one ALF share held on the scheme of arrangement record date.

### Making a withdrawal

You can withdraw your investment by completing a Withdrawal Form and sending by mail to:

Watermark Absolute Return Fund Registry  
Boardroom Pty Limited  
Unitholder Services  
GPO Box 3993  
Sydney NSW 2001

Or by fax to +61 2 9279 0664 or by email to watermark@boardroomlimited.com.au

Refer below for "Terms and conditions for withdrawals". Once we receive your withdrawal request, we may act on your instruction without further enquiry if the instruction bears your account number or investor details and your (apparent) signature(s), or your authorised signatory's (apparent) signature(s). The price at which units are withdrawn is determined in accordance with the Constitution ("Withdrawal Price"). The Withdrawal Price, in general terms, is equal to the NAV of the Fund, divided by the number of units on issue less any transaction costs.

Unit prices are calculated monthly.

The cut-off time for withdrawals is 2:00pm on the last Business Day of each month for that month's unit price.

Transaction costs may reduce the amount which you receive on withdrawal. See the 'Buy/Sell Spread' information in the fees section for further information.

The Withdrawal Price will vary as the market value of assets referable to the Fund rises or falls.

If you are an indirect investor, you need to provide your withdrawal request directly to your IDPS Operator. The time to process a withdrawal request will depend on the particular IDPS Operator.

Minimum withdrawal amounts are subject to the Australian dollar minimum amounts disclosed above. Withdrawal requests received from New Zealand investors must specify:

- the withdrawal amount in Australian dollars; or
- the number of units to be withdrawn.

We are unable to accept withdrawal amounts quoted in New Zealand dollars. Please note that the withdrawal amount paid to you will be in Australian dollars and may differ from the amount you receive in New Zealand dollars due to:

- Foreign Exchange spreads between Australian and New Zealand dollars (currency rate differs daily); and
- Overseas Telegraphic Transfer ("OTT") costs.

Withdrawals will only be paid directly to the unitholder's bank account held in the name of the unitholder with an Australian domiciled bank. Withdrawal payments will not be made to third parties.

### Access to funds

The Responsible Entity will generally allow you to access your investment within 21 days of acceptance of a withdrawal request by transferring the withdrawal proceeds to your nominated bank account. However, the period of time for satisfying withdrawal requests may be extended where the Responsible Entity

considers that it is in the best interests of investors to do so and has taken all reasonable steps to realise sufficient assets, but is unable to do so due to circumstances outside its control. In these circumstances the period of time for satisfying withdrawal requests is extended for such further period as those circumstances apply and the Responsible Entity may suspend consideration of redemption requests. Withdrawals will not be funded from an external liquid facility. In such circumstances, the Responsible Entity will provide investors with 30 days' prior written notice of such extension or suspension.

The Withdrawal Price is determined in accordance with the Constitution. The Withdrawal Price on a Business Day, is in general terms, equal to the NAV of the Class, divided by the number of units on issue and adjusted for transaction costs ("Sell Spread"). At the date of this PDS, the Sell Spread is 0.30%. The Withdrawal Price will vary as the market value of assets in the Fund rises or falls.

We reserve the right to fully withdraw your investment in the Fund, upon giving 30 days' notice, if a minimum balance amount is introduced, or subsequently increased and your holding falls below the minimum balance amount. The sale of assets in the context of processing a withdrawal may also be impacted by counterparty risk which is discussed in further detail in section 6.

### Terms and conditions for withdrawals

Once your withdrawal request is received, your instruction may be acted on without further enquiry if the instruction bears your account number or investor details and your (apparent) signature(s), or your authorised signatory's (apparent) signature(s).

Equity Trustees and/or the Administrator reserve the right to ask for the production of original documents or other information to authenticate the communication. In the case of non-receipt or corruption of any message, you will be required to re-send the documents.

No withdrawal proceeds will be paid until the Unit Registry has received the withdrawal request signed by you or your authorised signatory and any KYC ("Know Your Client") Documents if you have not previously provided your identification documents. Neither Equity Trustees nor the Unit Registry shall be responsible for any mis-delivery or non-receipt of any facsimile. Facsimiles or emails sent to the Unit Registry shall only be effective when actually received by the Unit Registry.

When you are withdrawing, you should take note of the following:

- We are not responsible or liable if you do not receive, or are late in receiving, any withdrawal money that is paid according to your instructions.
- We may contact you to check your details before processing your withdrawal request. This may cause a delay in finalising payment of your withdrawal money. No interest is payable for any delay in finalising payment of your withdrawal money.
- If we cannot satisfactorily identify you as the withdrawing investor, we may refuse or reject your withdrawal request or payment of your withdrawal proceeds will be delayed. We are not responsible for any loss you consequently suffer.
- As an investor who is withdrawing, you agree that any payment made according to instructions received by post or courier or fax, shall be a complete satisfaction of our obligations, despite any fact or circumstances such as the payment being made without your knowledge or authority.



- You agree that if the payment is made according to these terms, you and any person claiming through or under you, shall have no claim against us about the payment.
- The Constitution allows Equity Trustees to make payment up to 21 days after we accept a request (which may be extended by a further 30 days in certain circumstances).
- Equity Trustees can deny a withdrawal request where accepting the request would cause the Fund to cease to be liquid or where the Fund is not liquid (as defined in the Corporations Act). When the Fund is not liquid, you can only withdraw when Equity Trustees makes a withdrawal offer to you in accordance with the Corporations Act. Equity Trustees is not obliged to make such offers. The Fund will be liquid if at least 80% of its assets are liquid assets (generally cash and marketable securities).

## Distributions

The Fund usually distributes income semi-annually at the end of June and at the end of December. Distributions are calculated on the last day of each period end (30 June and 31 December), and are normally paid to investors within 21 days of the period end although the distribution at 30 June may take longer. Equity Trustees may amend the distribution frequency without notice. Your share of any distributable income is calculated in accordance with the Constitution and is generally based on the number of units held by you at the end of the distribution period and the distributable income.

If you have not provided your KYC Documents, your distribution will be withheld and your reinvestment election will be removed. Once you provide your KYC Documents, any distributions accrued over the period will be paid out to your nominated bank account and you can re-elect to reinvest your distributions.

Indirect investors should review their IDPS Guide for information on how and when they receive any income distribution.

If New Zealand investors elect to have their distribution paid in cash, they will need to nominate a bank account held in their own name with an Australian domiciled bank. Cash distributions will only be paid in Australian dollars to such an account. When the distribution is reinvested, New Zealand investors will be allotted units in accordance with the terms and conditions set out above.

The distribution reinvestment plan is offered to New Zealand investors on the following basis:

- At the time the price of the units allotted pursuant to the distribution reinvestment plan is set, the Responsible Entity will not have any information that is not publicly available that would, or would be likely to, have a material adverse effect on the realizable price of the units if the information were publicly available.
- The right to acquire, or require the Responsible Entity to issue, units will be offered to all investors of the same class, other than those residing outside New Zealand who are excluded so as to avoid breaching overseas laws.
- Units will be issued on the terms disclosed to you, and will be subject to the same rights as units issued to all investors of the same class as you.

There is available from the Responsible Entity, on request and free of charge, a copy of the most recent annual report (if any) of the Fund, the most recent financial statements (if any) of the Fund, the auditor's report on those financial statements or, if those financial statements are not audited or reviewed by an auditor, a statement to that effect, the PDS and the Constitution for the Fund (including any amendments). Other than the Constitution, these documents may be obtained electronically from [www.eqt.com.au/insto](http://www.eqt.com.au/insto).

## Valuation of the Fund

The value of the investments of the Fund is generally determined monthly by the Administrator. The value of a unit in the Fund is determined on the basis of the value of the investments in the Fund (after taking into account any liabilities of the Fund), in accordance with the Constitution of the Fund. For example, the application price of a unit in the Fund is based on the NAV of the Fund divided by the number of units on issue plus an allowance for transaction costs required for buying investments. This allowance is known as the "Buy Spread". At the date of this PDS, the Buy Spread is 0.30%.

## Joint account operation

For joint accounts, unless indicated to the contrary on the Application Form, each signatory must sign withdrawal requests. Please ensure all signatories sign the declaration in the Application Form. Joint accounts will be held as joint tenants unless we are advised to the contrary in writing.

## Appointment of authorised nominee to operate account

You can appoint a person, partnership or company as your authorised signatory. To do so, please nominate them on the initial Application Form and have them sign the relevant sections. If a company is appointed, the powers extend to any director and officer of the company. If a partnership is appointed, the powers extend to all partners. Such appointments will only be cancelled or changed once we receive written instructions from you to do so.

Once appointed, your authorised signatory has full access to operate your investment account for and on your behalf. This includes the following:

- making additional investments;
- requesting income distribution instructions to be changed;
- withdrawing all or part of your investment;
- changing bank account details;
- enquiring and obtaining copies of the status of your investment; and
- having online account access to your investment.

If you do appoint an authorised signatory:

- you are bound by their acts;
- you release, discharge and indemnify us from and against any losses, liabilities, actions, proceedings, account claims and demands arising from instructions received from your authorised representatives; and
- you agree that any instructions received from your authorised representative shall be complete satisfaction of our obligations, even if the instructions were made without your knowledge or authority.

## Electronic instructions

If you instruct Equity Trustees by electronic means, such as facsimile or via the internet, you release Equity Trustees from and indemnify Equity Trustees against, all losses and liabilities arising from any payment or action Equity Trustees makes based on any instruction (even if not genuine):

- that Equity Trustees receives by an electronic communication bearing your investor code; and
- which appears to indicate to Equity Trustees that the communication has been provided by you (for example, it has a signature which is apparently your signature or your authorised signatory's or it has an email address which is apparently your email address).

You agree that neither you nor anyone claiming through you has any claim against Equity Trustees or the Fund in relation to such payments or actions.

There is a risk that a fraudulent withdrawal request can be made by someone who has access to your investor code and a copy of your signature or email address. Please take care.

## 8. Keeping Track of Your Investment

### Enquiries

For any enquiries regarding your investment or the management of the Fund please contact

Watermark Funds Management Pty Ltd  
ABN 98 106 302 505 (AFSL 250897)  
Phone: +61 2 9252 0225  
Email: [info@wfunds.com.au](mailto:info@wfunds.com.au)  
Website: [www.wfunds.com.au](http://www.wfunds.com.au)

### Complaints resolution

Equity Trustees has an established complaints handling process and is committed to properly considering and resolving all complaints. If you have a complaint about your investment, please contact us on:

Phone: 1300 133 472  
Post: Equity Trustees Limited  
GPO Box 2307, Melbourne VIC 3001  
Email: [compliance@eqt.com.au](mailto:compliance@eqt.com.au)

We will acknowledge receipt of the complaint within 1 Business Day or as soon as possible after receiving the complaint. We will seek to resolve your complaint as soon as practicable but not more than 30 calendar days after receiving the complaint.

If you are not satisfied with our response to your complaint, you may be able to lodge a complaint with the Australian Financial Complaints Authority ("AFCA").

Contact details are:  
Online: [www.afca.org.au](http://www.afca.org.au)  
Phone: 1800 931 678  
Email: [info@afca.org.au](mailto:info@afca.org.au)  
Post: GPO Box 3, Melbourne VIC 3001.

The external dispute resolution body is established to assist you in resolving your complaint where you have been unable to do so with us. However, it's important that you contact us first.

### Reports

Regular, simple to read and complete reports are provided to investors in the Fund.

These reports comprise:

- Annual Report including financial statements and auditor's report will be made available on the Equity Trustees website at [www.eqt.com.au/insto](http://www.eqt.com.au/insto) from 30 September each year.
- Transaction Reports confirming all additional investments, withdrawals, and payments (issued following transactions and on request).
- Distribution Statements as follows:
  - a) monthly statements to confirm closing units and value of holding;
  - b) distribution statements every distribution period confirming distribution amount and reinvestment/payment to nominated account;
  - c) annual investor statements to confirm closing units, value of investments and income from investments.
- Tax Statements or AMMA Member Statements issued annually, providing you with taxation information including a detailed summary of the components of any distributions.

The Responsible Entity also has and implements a policy to report annually on the following information as soon as practicable after the relevant period end:

- the actual allocation to each asset type;
- the liquidity profile of the portfolio assets as at the end of the period;
- the maturity profile of the liabilities as at the end of the period;
- the leverage ratio (including leverage embedded in the assets of the Fund, other than listed equities and bonds) as at the end of the period;
- the derivative counterparties engaged (including capital protection providers);
- the monthly or annual investment returns of the Fund over at least a five-year period (or, if the Fund has not been operating for five years, the returns since its inception); and
- the key service providers if they have changed since the latest report given to you, including any change in their related party status.

The following information is available on Watermark's website at [www.wfunds.com.au](http://www.wfunds.com.au) and is disclosed monthly:

- the current total NAV of the Fund and the redemption value of a unit in each class of units as at the date the NAV of the Class was calculated;
- the key service providers if they have changed since the last report given to investors, including any change in their related party status;
- for each of the following matters since the last report on those matters:
  - the net return on the Fund's assets after fees, costs and taxes;
  - any material change in the Fund's risk profile;
  - any material change in the Fund's investment strategy; and
  - any change in the individuals playing a key role in investment decisions for the Fund.

If and when the Fund has 100 or more direct investors, it will be classified by the Corporations Act as a 'disclosing entity'. As a disclosing entity, the Fund will be subject to regular reporting and disclosure obligations. Investors would then have a right to obtain a copy, free of charge, of any of the following documents:

- the most recent annual financial report lodged with ASIC ("Annual Report");
- any subsequent half yearly financial report lodged with ASIC after the lodgement of the Annual Report; and
- any continuous disclosure notices lodged with ASIC after the Annual Report but before the date of this PDS.

Equity Trustees will comply with any continuous disclosure obligation by lodging documents with ASIC as and when required.

Copies of these documents lodged with ASIC in relation to the Fund may be obtained from ASIC through ASIC's website.

You can call Watermark Funds Management +61 2 9252 0225 for updated information on performance, unit prices, Fund size and other general information about the Fund. If you are an indirect investor investing via an IDPS, contact your IDPS Operator.

## 9. Fees and Other Costs

### DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

For example, total annual fees and costs of 2% of your investment balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower fees. Ask the fund or your financial adviser.

### TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission (ASIC) Moneysmart website** ([www.moneysmart.gov.au](http://www.moneysmart.gov.au)) has a managed funds fee calculator to help you check out different fee options.

### Fees and other costs

This section shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the assets of the managed investment scheme as a whole.

Taxes are set out in another part of this document. You should read all the information about fees and costs because it is important to understand their impact on your investment.

### Fees and Costs Summary

Watermark Absolute Return Fund - B Class		
Type of fee or cost	Amount	How and when paid
<b>Ongoing annual fees and costs<sup>1</sup></b>		
<i>Management fees and costs</i> The fees and costs for managing your investment	1.30% of the NAV of the Class <sup>2</sup>	An amount of 1% p.a. of the management fees component of management fees and costs is not payable for a period of 12 months following the first issuance of units in the Fund.  After this time, the management fees component of management fees and costs will be accrued monthly and paid from the Fund monthly in arrears and reflected in the unit price. Otherwise, the fees and costs are variable and deducted and reflected in the unit price of the Fund as they are incurred.  The management fees component of management fees and costs can be negotiated. Please see "Differential fees" in the "Additional Explanation of Fees and Costs" for further information.
<i>Performance fees</i> Amounts deducted from your investment in relation to the performance of the product	0.00% of the NAV of the Class <sup>3</sup>	Performance fees are calculated monthly and paid annually in arrears from the Class and reflected in the unit price.
<i>Transaction costs</i> The costs incurred by the scheme when buying or selling assets	1.28% of the NAV of the Class <sup>2</sup>	Transaction costs are variable and deducted from the Class as they are incurred and reflected in the unit price. They are disclosed net of amounts recovered by the buy-sell spread.
<b>Member activity related fees and costs (fees for services or when your money moves in or out of the scheme)</b>		
<i>Establishment fee</i> The fee to open your investment	Not applicable	Not applicable
<i>Contribution fee</i> The fee on each amount contributed to your investment	Not applicable	Not applicable

## Watermark Absolute Return Fund - B Class

<p><i>Buy-sell spread</i></p> <p>An amount deducted from your investment representing costs incurred in transactions by the scheme</p>	0.30% upon entry and 0.30% upon exit	These costs are an additional cost to the investor but are incorporated into the unit price and arise when investing application monies and funding withdrawals from the Class and are not separately charged to the investor. The Buy Spread is paid into the Class as part of an application and the Sell Spread is left in the Class as part of a redemption.
<p><i>Withdrawal fee</i></p> <p>The fee on each amount you take out of your investment</p>	The lesser of 2% of the NAV of each unit redeemed; or 2 cents per unit redeemed.	The withdrawal fee is applicable for a period of 12 months following the first issuance of units in the Class and is paid at the time of redemption by deduction from redemption proceeds .
<p><i>Exit fee</i></p> <p>The fee to close your investment</p>	Not applicable	Not applicable
<p><i>Switching fee</i></p> <p>The fee for changing investment options</p>	Not applicable	Not applicable

<sup>1</sup> All fees quoted above are inclusive of Goods and Services Tax (GST) and net of any Reduced Input Tax Credits (RITC). See below for more details as to how the relevant fees and costs are calculated.

<sup>2</sup> Note that 1% pa of the NAV of Fund of the management fees component of the Management fees and costs is not payable for a period of 12 months following the issuance of units in the Fund. The indirect costs component of management fees and costs and transaction costs is based on a reasonable estimate of the costs for the current financial year to date, adjusted to reflect a 12 month period. Please see "Additional Explanation of Fees and Costs" below.

<sup>3</sup> This represents a reasonable estimate of the performance fee which would have been paid by the Class in the last financial year ending 30 June 2020 and is not a forecast of any future performance fees. See "Performance fees" below for more information.

## Additional Explanation of Fees and Costs

### Management fees and costs

The management fees and costs include amounts payable for administering and operating the Fund, investing the assets of the Fund, expenses and reimbursements in relation to the Fund and indirect costs. Management fees and costs do not include performance fees or transaction costs, which are disclosed separately.

The management fees component of management fees and costs of 1.30% p.a. of the NAV of the Fund is payable to the Responsible Entity of the Fund for managing the assets and overseeing the operations of the Fund. Note that the Investment Manager and the Responsible Entity have agreed to waive an amount of 1% p.a. of the NAV of the Fund of the management fees component of management fees and costs for a period of 12 months following the first issuance of units in the Fund. Following the expiry of this period, the management fees component will be accrued monthly and paid from the Fund monthly in arrears and reflected in the unit price. As at the date of this PDS, the management fees component covers certain ordinary expenses such as Responsible Entity fees, investment management fees, custodian fees, and administration and audit fees.

The indirect costs and other expenses component of 0.00% p.a. of the NAV of the Class may include other ordinary expenses of operating the Class, as well as management fees and costs (if any) arising from interposed vehicles in or through which the Class invests and the costs of investing in over-the-counter derivatives to gain investment exposure to assets or implement the Fund's investment strategy (if any). The indirect costs and other expenses component is variable and reflected in the unit price of the Fund as the relevant fees and costs are incurred. They are borne by investors, but they are not paid to the Responsible Entity or Investment Manager.

Actual indirect costs for the current and future years may differ. If in future there is an increase to indirect costs disclosed in this PDS, updates will be provided on Equity Trustees' website at [www.eqf.com.au/insto](http://www.eqf.com.au/insto) where they are not otherwise required to be disclosed to investors under law.

### Performance fees

Performance fees include amounts that are calculated by reference to the performance of the Class. As the Class is first offered in the current financial year, the performance fee of 0.00% of the NAV of the Class represents a reasonable estimate of the performance fee which would have been paid by the Class in the last financial year ending 30 June 2020 based on the relevant information for a similar product offering in the market offered by the Investment Manager.

In terms of the performance fees payable to the Investment Manager, a performance fee is payable where the investment performance of the Class exceeds the performance of the Fund benchmark. The performance fee is 20.5% (inclusive of GST and net of RITC) of any increase in the Class's NAV over any financial year (adjusted for applications and redemptions and before the payment of any distribution) which exceeds the Fund benchmark, subject to the high-water mark. The high-water mark means the highest NAV of the Class at the end of a financial year where a performance fee has been paid, adjusted for applications, redemptions and subsequent distributions.

The Fund benchmark is the Reserve Bank of Australia's cash-rate.

The performance fee is calculated monthly and payable annually in arrears. In general terms:

1. Each day, the performance of the Class from the inception date is compared with the performance of the Fund benchmark for the same period. The Class's performance is calculated after the deduction of the management costs (paid or accrued) but before the deduction of performance fees and disregarding any applications in and withdrawals out of the Class. The positive difference is referred to as 'outperformance'.

2. A 'high-water mark' is then set each time the level of outperformance exceeds the previous highest level of outperformance since inception of the Class.

3. The amount by which the Class's outperformance exceeds the previous high-water mark, if any, (difference) is then calculated.

4. If the previous high-water mark is exceeded for a particular day, a performance fee of 20.5% (inclusive of GST and net of RITC) of the difference, multiplied by the Class's NAV, is then accrued. The performance fee is generally calculated monthly and payable annually.

5. However, if the previous high-water mark is not exceeded, no performance fee accrues that day, even if the Class performance has exceeded the Fund benchmark performance on that day.

Please note that the performance fees disclosed in the Fees and Costs Summary is not a forecast as the actual performance fee for the current and future financial years may differ. The Responsible Entity cannot guarantee that performance fees will remain at their previous level or that the performance of the Class will outperform the Benchmark.

Based on the performance of the Fund as at the date of this PDS for the financial year ending 30 June 2021, the Investment Manager expects that the performance fee payable in respect of this financial year will be higher than the performance fee for the previous financial year (as shown in Fees and Costs Summary table above).

It is not possible to estimate the actual performance fee payable in any given period, as we cannot forecast what the performance of the Class will be. Information on current performance fees will be updated from time to time and available at [www.eqt.com.au/insto](http://www.eqt.com.au/insto).

### Performance fee example

The example below is provided for illustrative purposes only and does not represent any actual or prospective performance of the Class. We do not provide any assurance that the Class will achieve the performance used in the example and you should not rely on this example in determining whether to invest in the Fund.

Assume the following:

- The Fund's performance for the performance fee period is 8.7% after management costs have been deducted (10% less management costs of 1.30%)
- The Fund benchmark performance is 0.25% RBA cash rate
- The high water mark is set at zero
- The NAV of the Class is \$100,000,000

The return of the Class above the Fund benchmark is 8.45% (8.7%-0.25%) for the period. The performance fee is calculated as 20.5% (including GST and net of RITC) x 8.45% x \$100,000,000 = \$1.73 million for that performance fee period.

If the Fund's performance is lower than the Fund benchmark, a performance fee is not charged but a negative performance fee is recorded. Any negative performance fee recorded during a performance fee period must be recouped before the Investment Manager becomes entitled to a performance fee.

Please note that the example is used for illustrative purposes only and does not forecast future performance.

### Transaction costs

In managing the assets of the Fund, the Fund may incur transaction costs such as brokerage, buy-sell spreads in respect of the underlying investments of the Fund, settlement costs, clearing costs and applicable stamp duty when assets are bought and sold, and the costs of over-the-counter derivatives that reflect transaction costs that would arise if the Fund held the ultimate reference assets, as well as the costs of over-the-counter derivatives used for hedging purposes.

Transaction costs also include costs incurred by interposed vehicles in which the Fund invests (if any), that would have been transaction costs if they had been incurred by the Fund itself. Transaction costs are an additional cost to the investor where they are not recovered by the Buy/Sell Spread, and are generally incurred when the assets of the Fund are changed in connection with day-to-day trading or when there are applications or withdrawals which cause net cash flows into or out of the Fund.

The Buy/Sell Spread that is disclosed in the Fees and Costs Summary is a reasonable estimate of transaction costs that the Class will incur when buying or selling assets of the Class. These costs are an additional cost to the investor but are incorporated into the unit price and arise when investing application monies and funding withdrawals from the Class and are not separately charged to the investor. The Buy Spread is paid into the Class as part of an application and the Sell Spread is left in the Class as part of a redemption and not paid to Equity Trustees or the Investment Manager. The estimated Buy/Sell Spread is 0.30% upon entry and 0.30% upon exit. The dollar value of these costs based on an application or a withdrawal of \$50,000 is \$150 for each individual transaction. The Buy/Sell Spread can be altered by the Responsible Entity at any time and [www.eqt.com.au/insto](http://www.eqt.com.au/insto) will be updated as soon as practicable to reflect any change. The Responsible Entity may also waive the Buy/Sell Spread in part or in full at its discretion. The transaction costs figure in the Fees and Costs Summary is shown net of any amount recovered by the Buy/Sell Spread charged by the Responsible Entity.

Transaction costs generally arise through the day-to-day trading of the Class's assets and are reflected in the Class's unit price as an additional cost to the investor, as and when they are incurred.

The gross transaction costs for the Class are 1.40% p.a. of the NAV of the Class, which is based on a reasonable estimate of the costs for the current financial year to date, adjusted to reflect a 12 month period.

In relation to the costs that have been estimated, they have been estimated on the basis of relevant information for a similar product offering in the market offered by the Investment Manager.

However, actual transaction costs for future years may differ.

### Withdrawal fee

The withdrawal fee is the lesser of 2% of the NAV of the each Class unit redeemed; or 2 cents per unit in the Class redeemed. The withdrawal fee is applicable for a period of 12 months following the first issuance of units in the Class and is paid at the time of redemption by deduction from redemption proceeds.

The following is example of the withdrawal fee has been provided for illustrative purposes only and assumes:

- the redemption request is made during the period of 12 months following the first issuance of units in the Class;

Units redeemed		100,000	
NAV unit price	2% of the NAV per unit	2 cents per unit	Withdrawal fee payable
\$0.90	\$1,800.00	\$2,000.00	\$1,800.00
\$1.00	\$2,000.00	\$2,000.00	\$2,000.00
\$1.10	\$2,200.00	\$2,000.00	\$2,000.00

## Can the fees change?

Yes, all fees can change without investor consent, subject to the maximum fee amounts specified in the Constitution. The current maximum management fee to which Equity Trustees is entitled is 2.00% of the GAV of the Class. However, Equity Trustees does not intend to charge that amount and will generally provide investors with at least 30 days' notice of any proposed increase to the management fees component of management fees and costs. In most circumstances, the Constitution defines the maximum level that can be charged for fees described in this PDS. Equity Trustees also has the right to recover all reasonable expenses incurred in relation to the proper performance of its duties in managing the Fund and as such these expenses may increase or decrease accordingly, without notice.

## Payments to IDPS Operators

Subject to the law, annual payments may be made to some IDPS Operators because they offer the Fund on their investment menus. Product access is paid by the Investment Manager out of its investment management fee and is not an additional cost to the investor.

## Example of annual fees and costs for an investment option

This table gives an example of how the ongoing annual fees and costs in the investment option for this product can affect your investment over a 1-year period. You should use this table to compare this product with other products offered by managed investment schemes.

EXAMPLE – Watermark Absolute Return Fund - B Class		
BALANCE OF \$100,000 WITH A CONTRIBUTION OF \$5,000 DURING THE YEAR		
Contribution Fees	Nil	For every additional \$5,000 you put in, you will be charged \$0
Plus Management fees and costs	1.30% p.a.	<b>And</b> , for every \$100,000 you have in the Watermark Absolute Return Fund - B Class you will be charged or have deducted from your investment \$1,300 each year
Plus Performance fees	0.00% p.a.	<b>And</b> , you will be charged or have deducted from your investment \$0 in performance fees each year
Plus Transaction costs	1.28% p.a.	<b>And</b> , you will be charged or have deducted from your investment \$1,280 in transaction costs
<b>Equals</b> Cost of Watermark Absolute Return Fund - B Class		If you had an investment of \$100,000 at the beginning of the year and you put in an additional \$5,000 during that year, you would be charged fees and costs of: \$2,580* <b>What it costs you will depend on the investment option you choose and the fees you negotiate.</b>

\* Additional fees may apply. Please note that this example does not capture all the fees and costs that may apply to you such as the Buy/Sell Spread.

This example assumes the \$5,000 contribution occurs at the end of the first year, therefore the fees and costs are calculated using the \$100,000 balance only.

**Warning: If you have consulted a financial adviser, you may pay additional fees. You should refer to the Statement of Advice or Financial Services Guide provided by your financial adviser in which details of the fees are set out.**

ASIC provides a fee calculator on [www.moneysmart.gov.au](http://www.moneysmart.gov.au), which you may use to calculate the effects of fees and costs on account balances. The performance fees stated in this table are generally based on the average performance fee for the Class.

The indirect costs and other expenses component of management fees and costs and transaction costs may also be based on estimates. As a result, the total fees and costs that you are charged may differ from the figures shown in the table.

## Differential fees

The Investment Manager may from time to time negotiate a different fee arrangement (by way of a rebate or waiver of fees) with certain investors who are Australian Wholesale Clients. Please contact the Investment Manager on +61 2 9252 0225 for further information.

## Taxation

Please refer to Section 10 of the Product Disclosure Statement for further information on taxation.

## 10. Taxation

The following information summarises some of the Australian taxation issues you may wish to consider before making an investment in the Fund and assumes that you hold your investment in the Fund on capital account and are not considered to be carrying on a business of investing, trading in investments, or investing for the purpose of profit making by sale. The information should be used as a guide only and does not constitute professional tax advice as individual circumstances may differ.

This summary is based on the taxation laws as at the date of this PDS. Investing in a registered managed investment scheme is likely to have tax consequences. However, it is noted that taxation laws can change at any time, which may have adverse taxation consequences for investors concerned. It is recommended that investors seek their own professional advice, specific to their own circumstances, of the taxation implications of investing in the Fund.

### Australian Taxation Treatment of the Fund

#### General

The income tax treatment of the Fund and its investors will depend on whether the Equity Trustees is eligible, and elects, to apply the Attribution Managed Investment Trust ("AMIT") provisions. The AMIT provisions are an elective income tax regime for qualifying managed investment trusts ("MIT") that provide for flow-through taxation to investors. Where the Fund qualifies as a MIT for income tax purposes, the Equity Trustees will seek to make an election to treat the disposal of covered assets (such as shares and units) on revenue account. Where the AMIT provisions do not apply, the ordinary trust taxation provisions will apply to the Fund. While the AMIT provisions are not expected to materially change the way in which investors would be taxed (as compared to the ordinary trust taxation provisions), the AMIT provisions are intended to provide more certainty on the application of the income tax provisions to the Fund and its investors.

#### Attribution Managed Investment Trusts

In May 2016, the Australian Federal Government enacted legislation establishing a new tax system for AMITs. Trusts that meet the eligibility criteria to be an AMIT may elect into the AMIT rules. Equity Trustees is intending that an irrevocable election into AMIT be made once the Fund is eligible and thereafter the following will apply:

**Fair and reasonable attribution:** Each year, the Fund's determined trust components of assessable income, exempt income, non-assessable non-exempt income and tax offsets (i.e. credits) will be allocated to investors on a "fair and reasonable" attribution basis, rather than being allocated proportionally based on each investor's present entitlement to the income of the Fund.

**Unders or overs adjustments:** Where the Fund's determined trust components for a year are revised in a subsequent year (e.g. due to actual amounts differing to the estimates of income, gains / losses or expenses), then unders and overs may arise. Unders and overs will generally be carried forward and adjusted in the year of discovery.

**Cost base adjustments:** Where the Distribution made is less than (or more than) certain components attributed to investors, then the cost base of an investor's units may be increased (or decreased). Details of cost base adjustment will be included on an investor's annual tax statement, referred to as an AMIT Member Annual Statement.

**Large redemptions:** In certain circumstances, gains may be attributed to a specific investor, for example, gains on disposal of assets to fund a large redemption being attributed to the redeeming investor.

**Multi-class AMITs:** A choice is available to elect to treat separate classes of units as separate AMITs. Equity Trustees may make the AMIT multi-class election if appropriate depending on the specific circumstances involved.

**Penalties:** In certain circumstances (e.g. failure to comply with certain AMIT rules), specific penalties may be imposed.

The new rules are intended to reduce complexity, increase certainty and reduce compliance costs for managed investment trusts and their investors.

#### Non-AMIT Provisions

On the basis that investors are presently entitled to all of the Fund's distributable income (which is the Responsible Entity's intention) and the Fund is not a public trading trust, the Fund should be treated as a flow-through trust for income tax purposes. This means that investors should be taxed on their share of the Fund's net taxable income, and the Fund should not be subject to Australian income tax.

#### *Multi-class non-AMITs*

In the absence of an AMIT multi-class election being made, the Fund is treated as a single taxpayer. As the classes are not treated as separate taxpayers, it is possible under the current non-AMIT trust taxation regime that the tax character of Distributions made to a particular class may be impacted by transactions associated with another class.

#### Taxation of Financial Arrangements ("TOFA")

The TOFA rules may apply to financial arrangements held by the Fund when calculating its assessable income. Broadly, the TOFA rules may impact the timing of the recognition of gains and losses in the Fund for tax purposes and will also treat relevant gains and losses as being on revenue account

#### Public trading trust rules

The Fund does not intend to derive income other than from an "eligible investment business". Accordingly, it should not be subject to tax as a public trading trust. Further, the Equity Trustees will seek to ensure it does not control entities that carry on trading activities.

#### Losses

In the case where the Fund makes a revenue tax loss or a net capital loss for Australian income tax purposes, the Fund cannot distribute these tax losses to investors. However, the revenue tax losses may be carried forward by the Fund for offset against taxable income of the Fund in subsequent years, subject to the operation of the trust loss rules.

### Australian Taxation of Australian Resident investors

#### Distributions – AMIT

The AMIT provisions require the taxable income of the Fund to be attributed to investors on a fair and reasonable basis, having regard to their income and capital entitlements in accordance with the constituent documents. The Responsible Entity will seek to allocate taxable income having regard to the units held by investors, entitlements to income and capital, as well as cash Distributions made to such investors during the relevant period. Under the AMIT provisions, an investor may be taxable on their share of the Fund's taxable income prior to receiving Distributions from the Fund.



## Distributions – Non-AMIT

Provided that the Fund is treated as a flow-through vehicle, investors will be assessed on the taxable income derived by the Fund, based on their proportionate share of the annual income of the Fund that is distributed to them in that income year. The Fund's investors will be required to include their share of taxable income in their tax return.

## Franking Credits and Franked Dividends

Income Distributions from the Fund may include an entitlement to franked dividends. Generally, investors should include the franked dividends and the franking credits (imputation credits) they receive in their assessable income.

Certain additional requirements, including the 45 day holding period rule, may need to be satisfied in order to obtain franking credits in relation to dividends. The investor's particular circumstances (and that of the Fund) will be relevant to determine whether the investor is entitled to any franking credits in respect of the investor's share of the franked dividends. Any excess franking credits may be refundable to some investors, such as individuals and complying superannuation funds.

## Foreign Income

The Fund may derive foreign sourced income that might be subject to foreign tax. Australian resident investors should include their share of both the foreign income and the amount of any foreign tax withheld in their assessable income. In such circumstances, investors may be entitled to a Foreign Income Tax Offset ("FITO") for the foreign tax paid, against the Australian tax payable on the foreign sourced income. FITO's that are not utilised cannot be carried forward to a future income year.

## Capital Gains

If an investor's share of the taxable income of the Fund includes an amount that consists of discount capital gains derived by the Fund, the investor needs to first 'gross up' the discount capital gain (by multiplying it by 2). However, (after grossing up any discount capital gains) investors may be able to reduce the capital gains distributed by the Fund by any capital losses which are available to them. Furthermore, after applying any loss, individual, trust, and complying superannuation fund investors may then be entitled to discount that capital gain by 50% for individuals and trusts and 33.3% for complying superannuation funds in determining the net capital gain that is to be included in their assessable income.

## Non-assessable Distribution payments - AMIT

Under the AMIT provisions, an investor's cost base in their units held is increased where taxable income is allocated to them (inclusive of any tax free component of a discount capital gain). The cost base is decreased where cash Distribution entitlements are made to the unitholder in respect of their units, irrespective of whether the amounts distributed are classified as income or capital. Additional reductions are made for certain tax offsets (such as the franking credit tax offset and foreign income tax offset).

The net annual tax cost base adjustment amount will be detailed in an AMMA tax statement, which will be sent annually to investors after year-end.

## Non-assessable Distribution payments – Non-AMIT

Tax-deferred Distributions may occur where the Fund distributes an amount of cash that exceeds the taxable income allocated to an investor. Certain tax-deferred Distributions that are not assessable to an investor result in a reduction in the cost base of the units held by the investor. A capital gain will arise where those tax-deferred Distributions exceed the cost base of the units.

## Disposal of units by Australian Resident investors

If an Australian resident investor transfers or redeems their units in the Fund, this will constitute a disposal for tax purposes.

Where an investor holds their units in the Fund on capital account, a capital gain or loss on the disposal may arise and each investor should calculate their capital gain or loss according to their own particular facts and circumstances. As noted above, proceeds on disposal may include a component of distributable income. In calculating the taxable amount of a capital gain, a discount of 50% for individuals and trusts or 33 1/3% for complying Australian superannuation funds may be allowed where the units in the Fund have been held for 12 months or more. No CGT discount is available to corporate investors.

Any capital losses arising from the disposal of the investment may be used to offset other capital gains the investor may have derived. Net capital losses may be carried forward for offset against capital gains of subsequent years but may not be offset against ordinary income.

## GST

The Fund will be registered for GST. The acquisition and disposal of units in the Fund by investors should not be subject to GST. Similarly, the Distributions paid by the Fund should not be subject to GST. GST is payable on some ongoing expenses, however the Fund may be able to claim a full input tax credit or RITC of at least 55% of the GST paid depending on the precise nature of the expenses incurred and the nexus with domestic or international equities. All fees and expenses are quoted inclusive of GST.

## Duty

The issue or redemption of units should not attract any duty. Duty may be payable on the transfer of units. Investors should confirm the duty consequences of transferring units with their taxation adviser.

## Tax File Number ("TFN") and Australian Business Number ("ABN")

It is not compulsory for an investor to quote their TFN or ABN. If an investor is making this investment in the course of a business or enterprise, the investor may quote an ABN instead of a TFN. Failure by an investor to quote an ABN or TFN or claim an exemption may cause the Responsible Entity to withhold tax at the top marginal rate, plus levies, on gross payments including Distributions of income to the investor. The investor may be able to claim a credit in their tax return for any TFN or ABN tax withheld. Collection of TFNs is permitted under taxation and privacy legislation.

By quoting their TFN or ABN, the investor authorises the Responsible Entity to apply it in respect of all the investor's investments with Equity Trustees. If the investor does not want to quote their TFN or ABN for some investments, Equity Trustees should be advised.

## New Zealand investors

If you are a New Zealand resident wishing to invest in Australia, we recommend that you seek independent professional tax advice. New Zealand resident investors will be taxed on their units under the foreign investment fund rules or ordinary tax rules, depending on their circumstances. Australian tax at the prescribed rates will be withheld from Distributions to non-residents to the extent that the Distributions comprise of relevant Australian sourced income or gains.

## 11. Other Important Information

### Consents

Watermark Funds Management Pty Ltd has given and, at the date of this PDS, has not withdrawn, its written consent:

- to be named in this PDS as the Investment Manager of the Fund; and
- to the inclusion of the statements made about it and the Fund, in the form and context in which they appear.

Watermark Funds Management Pty Ltd has not otherwise been involved in the preparation of this PDS and has not caused or otherwise authorised the issue of this PDS. Watermark Funds Management Pty Ltd and its employees and officers do not accept any responsibility arising in any way for errors or omissions from this PDS, other than in relation to the statements for which it has provided its consent.

### Constitution of the Fund

You will be issued units in the Fund when you invest. Subject to the rights, obligations and restrictions of a class, each unit represents an equal undivided fractional beneficial interest in the assets of the Fund as a whole subject to liabilities, but does not give you an interest in any particular property of the Fund.

Equity Trustees' responsibilities and obligations, as the Responsible Entity of the Fund, are governed by the Constitution as well as the Corporations Act and general trust law. The Constitution contains a number of provisions relating to the rights, terms, conditions and obligations imposed on both Equity Trustees, as the Responsible Entity of the Fund, and investors.

Other provisions relate to your rights under the Constitution, and include:

- your right to share in any Fund income, and how we calculate it;
- what you are entitled to receive when you withdraw or if the Fund is wound up;
- your right to withdraw from the Fund - subject to the times when we can cease processing withdrawals, such as if the Fund becomes 'illiquid';
- the nature of the units - identical rights attach to all units within a class; and
- your rights to attend and vote at meetings – however these rights are mainly contained in the Corporations Act.

There are also provisions governing our powers and duties, including:

- how we calculate unit prices, the maximum amount of fees we can charge and expenses we can recover;
- when we can amend the Constitution - generally we can only amend the Constitution where we reasonably believe that the changes will not adversely affect investors' rights. Otherwise the Constitution can only be amended if approved at a meeting of investors;
- when we can retire as the Responsible Entity of the Fund - which is as permitted by law;
- when we can be removed as the Responsible Entity of the Fund - which is when required by law; and
- our broad powers to invest, borrow and generally manage the Fund.

The Constitution also deals with our liabilities in relation to the Fund and when we can be reimbursed out of the Fund's assets. For example:

- subject to the Corporations Act we are not liable for acting in reliance and good faith on professional advice;

- subject to the Corporations Act we are not liable for any loss unless we fail to act in good faith or we act negligently; and
- we can be reimbursed for any liabilities we incur in connection with the proper performance of our powers and duties in respect of the Fund.

As mentioned above, Equity Trustees' responsibilities and obligations as the Responsible Entity of the Fund are governed by the Constitution of the Fund, the Corporations Act and general trust law, which require that we:

- act in the best interests of investors and, if there is a conflict between investors' interests and our own, give priority to investors;
- ensure the property of the Fund is clearly identified, held separately from other funds and our assets, and is valued regularly;
- ensure payments from the Fund's property are made in accordance with the Constitution and the Corporations Act; and
- report to ASIC any breach of the Corporations Act in relation to the Fund which has had, or is likely to have, a materially adverse effect on investors' interests.

### Non-listing of units

Units in the Fund are not listed on any stock exchange and no application will be made to list the units of the Fund on any stock exchange.

### Termination of the Fund

The Responsible Entity may resolve at any time to terminate and liquidate the Fund (if it provides investors with notice) in accordance with the Constitution and the Corporations Act. Upon termination and after conversion of the assets of the Fund into cash and payment of, or provision for, all costs, expenses and liabilities (actual and anticipated), the net proceeds will be distributed pro-rata among all investors according to the aggregate of the withdrawal price for each of the units they hold in the Fund.

### Our legal relationship with you

Equity Trustees' responsibilities and obligations, as the Responsible Entity of the Fund, are governed by the Constitution of the Fund, as well as the Corporations Act and general trust law. The Constitution of the Fund contains a number of provisions relating to the rights, terms, conditions and obligations imposed on both Equity Trustees, as the Responsible Entity of the Fund, and investors. Equity Trustees may amend the Constitution if it considers that the amendment will not adversely affect an investor's rights. Otherwise the Constitution may be amended by way of a special resolution of investors.

A copy of the Constitution of the Fund is available, free of charge, on request from Equity Trustees.

### Compliance Plan

Equity Trustees has prepared and lodged a compliance plan for the Fund with ASIC. The compliance plan describes the procedures used by Equity Trustees to comply with the Corporations Act and the Constitution of the Fund. Each year the compliance plan for the Fund is audited and the audit report is lodged with ASIC.

## Unit pricing discretions policy

Equity Trustees has developed a formal written policy in relation to the guidelines and relevant factors taken into account when exercising any discretion in calculating unit prices (including determining the value of assets and liabilities). A copy of the policy and, where applicable and to the extent required, any other relevant documents in relation to the policy (such as records of any discretions which are outside the scope of, or inconsistent with, the unit pricing policy) will be made available to you free of charge on request.

## Indemnity

Equity Trustees, as the Responsible Entity of the Fund, is indemnified out of the Fund against all liabilities incurred by it in performing or exercising any of its powers or duties in relation to the Fund. To the extent permitted by the Corporations Act, this indemnity includes any liability incurred as a result of any act or omission of a delegate or agent appointed by the Responsible Entity. Equity Trustees may retain and pay out any monies in its hands all sums necessary to affect such an indemnity.

## Your privacy

The Australian Privacy Principles contained in the Privacy Act 1988 (Cth) ("Privacy Act") regulate the way in which we collect, use, disclose, and otherwise handle your personal information. Equity Trustees is committed to respecting and protecting the privacy of your personal information, and our Privacy Policy details how we do this.

It is important to be aware that, in order to provide our products and services to you, Equity Trustees may need to collect personal information about you and any other individuals associated with the product or service offering. In addition to practical reasons, this is necessary to ensure compliance with our legal and regulatory obligations (including under the Corporations Act, the AML/CTF Act and taxation legislation). If you do not provide the information requested, we may not be able to process your application, administer, manage, invest, pay or transfer your investment(s).

You must therefore ensure that any personal information you provide to Equity Trustees is true and correct in every detail. If any of this personal information (including your contact details) changes, you must promptly advise us of the changes in writing. While we will generally collect your personal information from you, your broker or adviser or the Investment Manager and Administrator directly, we may also obtain or confirm information about you from publicly available sources in order to meet regulatory obligations.

In terms of how we deal with your personal information, Equity Trustees will use it for the purpose of providing you with our products and services and complying with our regulatory obligations. Equity Trustees may also disclose it to other members of our corporate group, or to third parties who we work with or engage for these same purposes. Such third parties may be situated in Australia or offshore, however we take reasonable steps to ensure that they will comply with the Privacy Act when collecting, using or handling your personal information.

The types of third parties that we may disclose your information to include, but are not limited to:

- stockbrokers, financial advisers or adviser dealer groups, their service providers and/or any joint holder of an investment;
- those providing services for administering or managing the Fund, including the Investment Manager, Custodian and Administrator, auditors, or those that provide mailing or printing services;

- our other service providers;
- regulatory bodies such as ASIC, ATO, APRA and AUSTRAC; and
- other third parties who you have consented to us disclosing your information to, or to whom we are required or permitted by law to disclose information to.

Equity Trustees or the Investment Manager may from time to time provide you with direct marketing and/or educational material about products and services they believe may be of interest to you. You have the right to "opt out" of such communications by contacting us using the contact details below.

In addition to the above information, Equity Trustees' Privacy Policy contains further information about how we handle your personal information, and how you can access information held about you, seek a correction to that information, or make a privacy-related complaint.

Full details of Equity Trustees' Privacy Policy are available at [www.eqt.com.au](http://www.eqt.com.au). You can also request a copy by contacting Equity Trustees' Privacy Officer on +61 3 8623 5000 or by email to [privacy@eqt.com.au](mailto:privacy@eqt.com.au).

## Anti-Money Laundering and Counter Terrorism Financing ("AML/CTF")

Australia's AML/CTF laws require Equity Trustees to adopt and maintain a written AML/CTF Program. A fundamental part of the AML/CTF Program is that Equity Trustees must hold up-to-date information about investors (including beneficial owner information) in the Fund.

To meet this legal requirement, we need to collect certain identification information (including beneficial owner information) and documentation ("KYC Documents"). If investors do not provide the applicable KYC Documents when requested, Equity Trustees may be unable to provide services to existing investors until such time as the information is provided.

In order to comply with AML/CTF Laws, Equity Trustees may also disclose information including your personal information that it holds about the applicant, an investor, or any beneficial owner, to its related bodies corporate or service providers, or relevant regulators of AML/CTF Laws (whether inside or outside Australia). Equity Trustees may be prohibited by law from informing applicants or Investors that such reporting has occurred.

Equity Trustees shall not be liable to applicants or investors for any loss you may suffer because of compliance with the AML/CTF laws.

## Indirect investors

You may be able to invest indirectly in the Fund via an IDPS by directing the IDPS Operator to acquire units on your behalf. If you do so, you will need to complete the relevant forms provided by the IDPS Operator and not the Application Form accompanying the PDS. This will mean that you are an indirect investor in the Fund and not an investor or member of the Fund. Indirect investors do not acquire the rights of an investor as such rights are acquired by the IDPS Operator who may exercise, or decline to exercise, these rights on your behalf.

Indirect investors do not receive reports or statements from us and the IDPS Operator's application and withdrawal conditions determine when you can direct the IDPS Operator to apply or redeem. Your rights as an indirect investor should be set out in the IDPS Guide or other disclosure document issued by the IDPS Operator.

## Information on underlying investments

Information regarding the underlying investments of the Fund will be provided to an investor of the Fund on request, to the extent Equity Trustees is satisfied that such information is required to enable the investor to comply with its statutory reporting obligations. This information will be supplied within a reasonable timeframe having regard to these obligations.

## Foreign Account Tax Compliance Act ("FATCA")

In April 2014, the Australian Government signed an intergovernmental agreement ("IGA") with the United States of America ("U.S."), which requires all Australian financial institutions to comply with the FATCA Act enacted by the U.S. in 2010.

Under FATCA, Australian financial institutions are required to collect and review their information to identify U.S. residents and U.S. controlling persons that invest in assets through non-U.S. entities. This information is reported to the Australian Taxation Office ("ATO"). The ATO may then pass that information onto the U.S. Internal Revenue Service.

In order to comply with the FATCA obligations, we may request certain information from you. Failure to comply with FATCA obligations may result in the Fund, to the extent relevant, being subject to a 30% withholding tax on payment of U.S. income or gross proceeds from the sale of certain U.S. investments. If the

Fund suffers any amount of FATCA withholding and is unable to obtain a refund for the amounts withheld, we will not be required to compensate investors for any such withholding and the effect of the amounts withheld will be reflected in the returns of the Fund.

## Common Reporting Standard ("CRS")

The CRS is developed by the Organisation of Economic Co-operation and Development and requires certain financial institutions resident in a participating jurisdiction to document and identify reportable accounts and implement due diligence procedures. These financial institutions will also be required to report certain information on reportable accounts to their relevant local tax authorities.

Australia signed the CRS Multilateral Competent Authority Agreement and has enacted provisions within the domestic tax legislation to implement CRS in Australia. Australian financial institutions need to document and identify reportable accounts, implement due diligence procedures and report certain information with respect to reportable accounts to the ATO. The ATO may then exchange this information with foreign tax authorities in the relevant signatory countries.

In order to comply with the CRS obligations, we may request certain information from you. Unlike FATCA, there is no withholding tax that is applicable under CRS.

## 12. Glossary of Important Terms

### **AFSL Licence**

Australian financial services licence issued by ASIC under section 913B of the Corporations Act.

### **Application Form**

The Application Form used by investors who wish to subscribe for units directly in the Fund and accompanying this PDS.

### **ASIC**

The Australian Securities and Investments Commission.

### **Asset allocation**

The weighting of assets in an investment portfolio among different asset classes (such as shares, bonds, property and cash).

### **Business Day**

Any day (except any weekend or public holiday) on which trading banks are open for usual business in Sydney, Australia.

### **Buy/Sell Spread**

The difference between the Application Price and Withdrawal Price of units in the Fund, which reflects the estimated transactions costs associated with buying and selling the assets of the Fund, when investors invest in or withdraw from the Fund.

### **Class**

Any reference to class in this PDS relates to unit held by B Class unitholders.

### **Constitution**

The Constitution of the Fund which describes the rights, responsibilities and beneficial interest of both investors and the Responsible Entity in relation to the Fund.

### **Corporations Act**

The Corporations Act 2001 (Cth) and Corporations Regulations 2001 (Cth), as amended from time to time.

### **Derivatives**

Generally, a derivative is a financial contract whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index. Derivatives may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities, and related indexes. Examples include options contracts, futures contracts, options on futures contracts, swap agreements (including, but not limited to, long and short credit default swaps and forward swap spread locks) and options on swap agreements.

### **Distribution**

The amount that is paid to investors after the end of a distribution period. This generally includes any income and realised capital gains.

### **Hedge**

The practice of undertaking one investment activity in order to protect against loss in another. While hedges can reduce potential losses, they can also reduce potential profits.

### **IDPS**

Investor-Directed Portfolio Service or investor-directed portfolio-like managed investment scheme. An IDPS is generally the vehicle through which an investor purchases a range of underlying investment options from numerous investment managers. In New Zealand, the IDPS needs to be licensed as a Discretionary Investment Management Service provider.

### **Liquidity**

The ability of an investment to be easily and quickly converted into cash with little loss of capital.

### **Long Portfolio**

A portfolio of shares which the investor owns.

### **Long positions**

A long position is one in which the investor owns shares in a company. The investor will seek to profit as the price of the shares appreciates.

### **Net Asset Value (NAV)**

The value of assets of the Fund less the value of the liabilities of the Fund (excluding net assets attributable to investors).

### **Retail Client**

Persons or entity which is a retail client as defined under section 761G of the Corporations Act.

### **RITC**

Reduced Input Tax Credit. Equity Trustees will apply for reduced input tax credits on behalf of the Fund, where applicable, to reduce the GST cost to the Fund.

### **Short Portfolio**

A portfolio of shares that the investor has borrowed and short sold

### **Short positions**

A short position is one in which the investor has sold shares that the investor doesn't own. The investor seeks to profit as the value of the shares falls, thereby reducing the size of the liability to re-purchase the shares. Short sales are generally covered, that is, the seller will "borrow" the investment to settle the sale and then will buy the same investment in the open market to return the borrowed investment. The difference between the sale price and the purchase price of the investment in the open market is the profit or loss earned by the investor.

### **Unit**

Any reference to unit in this PDS relates to a B Class unit.

### **US person**

A person so classified under securities or tax law in the United States of America ("US") including, in broad terms, the following persons:

- (a) any citizen of, or natural person resident in, the US, its territories or possessions; or
- (b) any corporation or partnership organised or incorporated under any laws of or in the US or of any other jurisdiction if formed by a US Person (other than by accredited investors who are not natural persons, estates or trusts) principally for the purpose of investing in securities not registered under the US Securities Act of 1933; or
- (c) any agency or branch of a foreign entity located in the US; or
- (d) a pension plan primarily for US employees of a US Person; or
- (e) a US collective investment vehicle unless not offered to US Persons; or
- (f) any estate of which an executor or administrator is a US Person (unless an executor or administrator of the estate who is not a US Person has sole or substantial investment discretion over the assets of the estate and such estate is governed by non-US law) and all the estate income is non-US income not liable to US income tax; or
- (g) any trust of which any trustee is a US Person (unless a trustee who is a professional fiduciary is a US Person and a trustee who is not a US Person has sole or substantial investment discretion over the assets of the trust and no beneficiary (or settlor, if the trust is revocable) of the trust is a US Person); or

(h) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person; or

(i) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the US for the benefit or account of a US Person.

**Wholesale Client**

Person or entity which is a wholesale client as defined under the Corporations Act.

**Wholesale Investor**

In the case of a New Zealand investor, means a Wholesale Client who also meets the definition of wholesale investor under clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 (New Zealand).

**Withdrawal Form**

The Withdrawal Form used by investors who wish to withdraw units directly from the Fund and accompanying this PDS.