# SANDON CAPITAL

## ACTIVIST FUND

## INFORMATION MEMORANDUM (IM)

JULY 2019

**FUNDHOST LIMITED**
ABN 69 092 517 087

Australian Financial Services Licence
(AFSL) 233 045

**SANDON CAPITAL PTY LIMITED**
ABN 98 130 853 691

AFSL 331 663

# IMPORTANT INFORMATION

Fundhost Limited ABN 69 092 517 087 AFSL 233 045 (**Fundhost**, **Trustee**, **we** or **us**) is the trustee of, and issuer of units in the Sandon Capital Activist Fund (**Fund**), offered in this Information Memorandum (**IM**). Fundhost has prepared this IM.

The information contained in this IM has been prepared without taking account of your personal objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness having regard to your objectives, financial situation and needs.

This IM is intended to provide a guide to the principal features of the Fund. An investment in the Fund is subject to the terms of the Fund's trust deed (**Trust Deed**). The IM is not a comprehensive statement of the Trust Deed or of all of the terms applicable to an investment in the Fund. A copy of the Fund's Trust Deed can be obtained by contacting us. This IM may not contain all of the information that a prospective investor or their advisers may expect or require in order to make an informed decision as to whether to subscribe for units in the Fund.

Prospective investors should rely upon their own enquiries in deciding whether to invest.

Neither Fundhost, Sandon Capital Pty Ltd ABN 98 130 853 691 AFSL 331663 (**Sandon Capital** or the **Investment Manager**) nor any related or associated companies guarantees the performance of the Fund, the return of investor's capital or any specific rate of return.

## Eligibility

This IM can only be used by wholesale investors (as defined in sections 761G or 761GA of the *Corporations Act 2001*) who receive the IM (electronically or otherwise) and respond to this offer in Australia (**Eligible Investors**).

Other than as permitted by law, units in the Fund offered in this IM will only be issued on receipt of an application form issued with this IM together with evidence that the investor qualifies as an Eligible Investor. For information on this refer to Eligible Investor or contact Fundhost on +61 (0)2 8223 5400.

This IM is not a product disclosure statement under the *Corporations Act 2001* and has been prepared for use only by Eligible Investors. This IM is not required to be and has not been lodged with ASIC under the *Corporations Act 2001*.

All amounts in this IM are given in Australian dollars. Fees and costs in this IM are disclosed inclusive of the net effect of Goods and Services Tax (**GST**) if applicable and any reduced input tax credits.

You should read this IM in full before deciding to invest.

This IM supersedes all preliminary information and other previous communications in connection with this offer and the Fund. All such preliminary information and previous communications should be disregarded. Any information or representation not contained in this IM may not be relied on as having been authorised by Fundhost or Sandon Capital in connection with the offer.

## Updated information

Information in this IM is subject to change from time to time. If it is not materially adverse information this may be updated by us. Updated information (such as performance information for the Fund) can be obtained by contacting Fundhost on +61 (0)2 8223 5400. We intend to issue a supplementary or replacement IM where any changes are, in our view, materially adverse to unitholders.

## Changes to Fund details

We have the right to change the Fund's objective and investment strategy (including the benchmark), asset allocation and range and currency strategy (if any), without prior notice.

We will inform investors of any significant change to the Fund's details in their next regular communication.

## Scheme registration

The Fund is not registered with ASIC pursuant to Chapter 5C of the *Corporations Act 2001*. At some stage in the future, the Trustee, in consultation with Sandon Capital, may choose to register the Fund with ASIC. By investing in the Fund, you agree to the Trustee applying for registration with ASIC at some time in the future. Please see the application form. If the Fund does become a registered managed scheme the level of fees may change. If the fees do change we will write to you to notify you of the changes prior to the change becoming effective and give you sufficient time to withdraw from the Fund should you so choose.

| | FUNDHOST (TRUSTEE) | SANDON CAPITAL (INVESTMENT MANAGER) |
|---|---|---|
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We hope you find this IM easy to use. We encourage you to read it all before you make any investment decision.


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# THE FUND AT A GLANCE

| FEATURE | SUMMARY |
|---|---|
| **Name of Fund** | Sandon Capital Activist Fund |
| **Trustee** | Fundhost Ltd |
| **Investment Manager** | Sandon Capital Pty Ltd |
| **Investment objective** | To deliver capital growth and some income through distributions.<br>Returns and capital are not guaranteed. |
| **Investment strategy** | To pursue a strategy of active engagement with management of the entities the Fund invests in and other stakeholders with the aim of unlocking unrealised value. |
| **Benchmark** | BBSWIM the midpoint of the ASX 1-month Bank Bill Swap Reference Rate |
| **Major asset class** | Listed Australian companies and trusts, derivatives and cash, with some international shares. |
| **Borrowing** | Borrowing (gross assets) of up to 150% of unitholders' funds may be used for investment purposes. |
| **Income distribution frequency** | Annually (as at 30 June) |
| **Minimum initial investment** | $250,000 (or other amounts as agreed with the Trustee) |
| **Minimum additional investment** | $50,000 |
| **Minimum withdrawal** | $50,000 |
| **Minimum balance** | $250,000 |
| **Unit pricing frequency** | Monthly |
| **Application processed** | Monthly |
| **Withdrawals processed** | Quarterly, subject to a one month notice period |
| **Liquidity gate** | 20% of the Fund per quarter |
| **Fund inception** | 4 September 2009 |
| **Management fees** | 1.54% p.a. of gross assets |
| **Performance fee** | 15.38% of the amount by which the Fund outperforms its benchmark subject to a high-water mark. |

# THE TRUSTEE FUNDHOST

Fundhost is the trustee of the Fund. The duties of the Trustee include:

- acting in the best interests of investors and, if there is a conflict between the investors' interest and its own interest, giving priority to the investors' interest;
- ensuring that the property of the Fund is clearly identified, held separately from any other property and is valued at regular intervals;
- ensuring that payments from the Fund are made in accordance with the Trust Deed of the Fund and the *Corporations Act 2001*.

Fundhost is a public company that has been established to provide essential services to managed investment schemes. More information on Fundhost is available on the website www.fundhost.com.au.

# THE INVESTMENT MANAGER SANDON CAPITAL

Sandon Capital is the Investment Manager of the Fund. It holds Australian Financial Services Licence No. 331663.

Sandon Capital seeks out investment opportunities that are typically overlooked by mainstream investors, and which provide the opportunity to unlock unrealised value through active engagement with management and other stakeholders.

Sandon Capital believes this gives tremendous potential for superior investment outcomes.

# THE INVESTMENT OBJECTIVE OF THE FUND

The objective of the Fund is to deliver returns to investors through a combination of capital growth and distributions. The Fund aims to achieve this objective by pursuing the investment strategy set out below. Neither returns nor capital are guaranteed.

## What does the Fund invest in?

The Fund principally invests in companies and trusts listed on the Australian Securities Exchange (the **ASX**). These include shares, unit trusts, stapled securities, debentures, promissory notes, hybrid securities, and rights. The Fund may also invest up to 15% of the portfolio in international listed shares and may also invest in debentures, unsecured notes and bonds of a corporation or government, units or interests in cash management trusts, or any other financial products with which the Investment Manager may use in the management of the Fund in accordance with its AFSL. The Fund may use derivatives to synthetically obtain exposure, short or for hedging purposes. The Fund may also hold substantial proportions of cash from time to time.

# THE INVESTMENT STRATEGY OF THE FUND

The Fund will seek to invest in opportunities that are considered by Sandon Capital to be trading below their intrinsic values and that offer the potential of being positively influenced by Sandon Capital taking an active role in proposing changes in the areas of corporate governance, capital management, strategic and operational issues, management arrangements and other related activities.

The Fund will also invest in other investment strategies, from time to time, including but not limited to merger and other market-based opportunities, where the Investment Manager considers the potential risk adjusted returns are attractive.

Please refer to Investment methodology for more detail on how Sandon Capital will invest.

## Hedging, borrowing and leverage

Sandon also determines whether, and to what extent, it may seek to hedge certain risks within the portfolio or apply any leverage. The decision to hedge, and to what level, is based on an assessment of the cost and the likely effectiveness of any such action. Hedging costs vary depending on the financial instrument that is being hedged.

Potential investors should note that Sandon Capital may not always employ such strategies, and if it does, it may not be with the aim of hedging the entire portfolio, and such strategies may not always succeed.

The Fund may use debt and other leveraging instruments for investment purposes. Borrowing is limited so that gross assets cannot exceed 150% of unitholders' funds. The use of leverage may enhance returns to investors, but may also magnify losses. Please refer to What are the significant risks? for more detail on the risks associated with the use of leverage.

The Fund may, at times, choose to employ short selling strategies. Please refer to the section entitled What are the significant risks? for more detail on the risks associated with short-selling.

# WHAT ARE THE BENEFITS OF THE FUND?

The Fund provides you with access to a dedicated "activist" investment strategy. Please refer to the section entitled An activist strategy for details about activism.

You have the right to receive any distributions made from the Fund (usually shortly after the end of June each year). Distributions may include taxable capital gains although they may also carry imputation and other tax credits. You should consult your tax adviser for any tax related enquiries.

Distributions can be reinvested in the Fund or credited to your nominated account. Distributions are automatically reinvested in the Fund unless you tell us not to do this (see the application form or contact us anytime).

# INVESTMENT METHODOLOGY

Sandon Capital seeks to identify investments which can be bought for less than what it considers to be their intrinsic values, and which it considers are likely to benefit from active engagement with shareholders.

It then seeks to apply various techniques of active engagement to reduce the difference (or discount) between price and the assessed intrinsic value. This is commonly known as an "activist" investment strategy.

Sandon Capital will select investments on the basis of undervaluation, and the strength of the opportunity to engage and improve value. Generally, Sandon Capital favours those investments with physical (or marketable) assets, rather than those with high levels of intangible assets.

Sandon Capital typically seeks to invest in a relatively concentrated portfolio, typically 5-6 positions will comprise at least 50% of the portfolio, although it may hold up to 15 to 20 securities (sometimes more), whose current trading prices do not reflect Sandon Capital's estimate of intrinsic value.

Sandon Capital expects that a typical holding period for an investment will be between 1 and 3 years.

## An activist strategy

Sandon Capital intends to pursue an activist strategy in respect of the investments it makes for the Fund. This involves Sandon Capital undertaking an active engagement with management, directors, trustees and other stakeholders with a view to narrowing the gap between the price at which a security trades and its assessed intrinsic value.

For example, Sandon Capital may identify a security that trades at a 20% discount to what it considers its intrinsic value to be. Sandon Capital will, before buying the security, have identified a number of potential catalysts, or changes which, if implemented, it believes will encourage a narrowing of the value gap. It will promote these potential changes generally with the investee first and then as needed with other stakeholders with a view to encouraging the investee to pursue a value-enhancing course of action.

Each and every investment opportunity is different, and there is no single formula for activism.

Sandon Capital believes that most value creation opportunities lie in the reasonable promotion of sound and effective corporate governance principles and practices.

Examples of activism include:

- board/trustee liaison;
- seeking information;
- convening investor meetings;
- attending meetings and exercising corporate actions;
- seeking to enforce legal rights;
- managing public profile; and
- liaising and acting with other stakeholders such as other investors, industry associations, regulators and the ASX, investment managers and financiers.

## A concentrated portfolio

An active engagement strategy is more "hands on" and time-consuming than a traditional passive investment strategy. As a result, the Fund's mature portfolio will be relatively concentrated.

The mature portfolio is targeted to focus typically on 5-6 key positions with up to 15 to 20 investments (sometimes more), with only a handful in "active engagement" mode at any one time. Other investments may be held passively as a position is being acquired, others as detailed tactics are being formulated. Sometimes, the Fund may simply be holding a position, waiting for an opportune moment to engage or further engage with an investee.

As a result, the portfolio may not be as diverse as a traditional investment portfolio. You should read the section entitled What are the significant risks? for details about the risks of reduced diversification.

The Fund may also hold significant proportions of its assets in cash. This may be the result of Sandon Capital building a position in a target investment, having recently sold down an investment, or as a result of having the view that cash represents a better alternative to being invested at that point.

## Portfolio guidelines

Sandon Capital will seek to manage the Fund's investments within certain portfolio guidelines. These are described in this section.

| Guidelines | As a % of Gross Assets | |
|---|---|---|
| | **Min** | **Max** |
| **Cash (or cash equivalents)** | 1% | 100% |
| **Securities** | 0% | 99% |
| | | |
| **Generally, any single security** | | 7.5% |
| But with the following higher limits for a security whose underlying assets comprise: | | |
| • 25% - 50% liquid securities | | 10% |
| • 50% - 100% liquid securities | | 15% |
| | As a % of Securities on issue | |
| **Generally the Fund will limit its relevant interest in an investment to:** | | 19.99% |

By liquid securities we mean investments that are listed on a recognised securities exchange or that can be readily liquidated. Stock holdings may move between the minimum and maximum ranges stated above quickly and without notice to you.

# WHAT ARE THE SIGNIFICANT RISKS?

## About risk and return

All investments are subject to varying risks and the value of an investment can decrease as well as increase (i.e. you can experience investment losses or investment gains). Changes in value can be significant and they can happen quickly. Investments within categories can have varying performance results. These results are dictated by the individual risk characteristics of the investment, timing and market volatility.

The significant risks for the Fund are discussed below. Not all risks can be eliminated and the risk management strategies that are adopted may not always be successful. However, the Sandon Capital investment team follows an investment process whereby risks are considered as an integral part of the investment process.

If these risks occur, distributions may be reduced or there may be none, the value of your investment could fall and you could lose money.

## Cyber risk

There is a risk of fraud, data loss, business disruption or damage to the information of the Fund or to investors' personal information as a result of a threat or failure to protect the information or or personal data stored within our IT systems and networks and those of our service providers.

## Derivatives risk

The Fund will use derivatives. The use of derivatives instruments involves a variety of material risks including the high degree of leverage often embedded in such instruments. Other risks include the possibility that a derivative position is difficult or costly to close out, there is an adverse movement in the asset or the index underlying a derivative, and the risk that the counterparty to a derivative contract fails to perform its obligations under the contract.

Derivative risks include:

- derivative valuations may not move in line with the underlying asset
- potential illiquidity of the derivative
- inability to close out a position
- lack of capacity of the Fund to meet payment obligations as they arise and
- counterparties not meeting their obligations.

Although not all of these risks can be eliminated, Sandon Capital manages these risks as far as practicable by:

- monitoring the Fund's derivative exposures
- ensuring the Fund can meet all of its derivative obligations
- using reputable counterparties and
- limiting the Fund's gross and net exposure, as well as its leverage and having individual position limits.

## Diversification risk

The Fund will seek to hold a concentrated portfolio of investments (typically 5-6 positions will constitute 50% of the portfolio with up to 15 to 20 securities (sometimes more)) whose current trading prices do not reflect Sandon Capital's estimate of intrinsic value. For example, at times it may hold only a few investments, with the rest of the Fund being held in cash.

The Fund will not offer the same levels of diversification as other more traditional funds. Sandon Capital will seek to minimise the risks of holding a concentrated portfolio by employing careful investment selection, paying heed to underlying assets and employing hedging techniques, where applicable and appropriate.

## Fund risk

Risks particular to the Fund include that it could terminate (i.e. if its costs of operating become unreasonable), the fees and expenses could change (see the section entitled Can the fees change?), Sandon Capital could be replaced or the Fund terminated, Fundhost could be replaced as Trustee and its or Sandon Capital's management and staff could change.

There is also a risk that investing in the Fund may give different results than investing individually because of income or capital gains accrued in the Fund and the consequences of investment and withdrawal by other investors.

## Individual investment risk

Investments can (and do) fall in value for many reasons. Equities may fall in value due to the changes in the relevant company's internal operations or management or in its business environment.

These risks are managed as far as is practicable by Sandon Capital through the Fund's portfolio guidelines. These guidelines restrict the Fund from investing more than a maximum percentage of its assets in any individual investment.

## International Investment risk

The Fund will invest in international assets, which will give rise to currency exposure. The relative strength or weakness of the Australian dollar against other currencies will affect the Fund's performance and the Fund may have less protection under laws outside of Australia, and any investments in emerging markets may be more volatile than investments in more developed countries.

## Investment Manager risk

It is possible that Sandon Capital could be wound up or liquidated, it might cease to manage the investments of the Fund and be replaced, its investment methodology could change or it could manage risks poorly.

If the investment strategy of this Fund changed significantly, you would be given at least 30 days' notice (where practicable).

Fundhost has the power to terminate and replace Sandon Capital as the Investment Manager, or to terminate the Fund in the interests of unitholders.

## Key person risk

The investment management professionals at Sandon Capital, particularly Gabriel Radzyminski, are responsible for managing the Fund and their personal circumstances can change.

This risk is mitigated by the investment management professionals' ownership stake in Sandon Capital, and the opportunity for them to share in any performance fees earned by Sandon Capital, both of which aligns them with the Fund's unit holders. By managing the portfolio so that at any time Sandon Capital is actively engaged on only a few of the holdings it ensures that resources are not stretched.

Sandon Capital also intends to reduce key person risk by hiring additional investment professionals as its business grows.

## Leverage risk

Leverage can enhance positive gains but, conversely, can magnify losses. The Fund seeks to reduce this risk by employing strict leverage guidelines whereby the loan-to-valuation ratio of the Fund is limited to gross assets of 150% of unitholders' funds. The Fund will only employ leverage for investment purposes.

## Liquidity risk

There are circumstances under which access to your money may be delayed – refer to Accessing your investment.

Further, the level of overall market liquidity is an important factor that may contribute to the profitability of the Fund and access to your money. Illiquid markets can make it difficult to trade profitably and to realise assets in a timely fashion to meet withdrawal requests.

The Fund employs a feature known as a "liquidity gate" to assist in managing redemptions from the Fund in such a way as to minimise any adverse effects to remaining unit holders.

Please refer to Accessing your investment.

The investments the Fund will invest in may also face liquidity risk themselves.

Units in the Fund are not quoted on any stock exchange and you cannot sell them through a stockbroker.

## Litigation risk

The Fund will pursue an active strategy of engaging with investees and other stakeholders to improve value. There is a possibility this action may lead to litigation or other enforcement action. For example, the Fund, the investments or management may be targeted by other stakeholders such as regulators and the ASX. This can be costly and very time consuming.

The Trustee and Sandon Capital may incur non-recurrent expenses on behalf of the Fund. These expenses may include, but are not limited to, litigation, legal and other expert's fees, travel and accommodation costs, and other expenses arising from managing the Fund's engagement activities. The Trustee may charge additional fees for its own time spent on such matters where it is required to deploy significantly more resources than in the normal operation of the Fund.

The Fund will be responsible for paying these additional costs associated with implementing its strategy.

Sandon Capital will seek to ensure any such costs are appropriately managed but if they are material, then actual costs could be substantially higher than estimates of ongoing costs.

## Market risk

Economic, technological, political or legal conditions, interest rates and even market sentiment, can (and do) change, and this can mean that changes in the value of investment markets can affect the value of the investments in the Fund. In spite of successful activism, value can still fall.

## Short selling risk

The Fund may engage in short selling. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date.

Short selling allows the Fund to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, as the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

## Strategy risk

The performance of the Fund is reliant on the success of the activist strategy developed by Sandon Capital. There is no guarantee that any aspect of such a strategy will be successful.

# FEES AND OTHER COSTS

## Management fee

The Fund will pay the Trustee a fee equivalent to 0.21% per annum of gross assets (excluding borrowings). This fee will be accrued and paid monthly in arrears.

## Investment management fee

The Fund will pay the Investment Manager a fee equivalent to 1.33% per annum of gross assets (excluding borrowings). This fee will be accrued and paid monthly in arrears.

## Recoverable expenses

The Trust Deed of the Fund provides that expenses incurred in relation to the proper performance of Fundhost's duties as Trustee are payable or reimbursable out of the assets of the Fund. These expenses include, but are not limited to, audit and transaction costs, litigation, ASIC fees and stamp duty.

We estimate the normal recurring level of such expenses will be approximately 0.12% per annum of the gross assets (excluding borrowings) of the Fund.

## Abnormal costs

The Trustee and Sandon Capital may incur non-recurrent expenses on behalf of the Fund. These expenses may include, but are not limited to, litigation, legal and other expert's fees, travel and accommodation costs, and other expenses arising from managing the Fund's engagement activities. The Trustee may charge additional fees for its own time spent on such matters.

These are the fees and costs for operating the Fund and are deducted from the assets of the Fund as and when they are incurred. These are not included in the recurrent recoverable expense estimate. Incurring non-recurrent expenses could cause costs to be significantly higher than the estimates given for recurring expenses.

## Performance fee

Sandon Capital is entitled to a performance fee of 15.38% of the amount by which the Fund (after fees and expenses but before distributions) outperforms its benchmark over a calculation period. The benchmark for the purpose of calculating the performance distribution is the ASX 1-month Bank Bill Swap Mid Reference Rate (**BBSW1M**) at the start of the calculation period, adjusted to a monthly figure. Calculation periods end on the last business day of each calendar month.

The absolute dollar value of the performance fee shall be calculated as follows:

**Obtain appropriate month end price**

1. Calculate period end unit price (this takes into account various fee and expense accruals but not any accrued performance fees) (all period end unit prices are pre distribution or add back distribution for current period). This is the period end unit price pre-performance fee ($P_1$).

**Compare with high water mark**

2. Determine high water mark. This is the highest previous period end unit price when a performance fee is paid on an accumulation basis (i.e. after allowing for distributions and net of all performance fees).

3. Is the figure determined by paragraph 2 higher than $P_1$? If yes, no further action required. If no, go to paragraph 4.

**Has there been a positive absolute unit price return for the period?**

4. Obtain prior period end unit price ($P_0$), calculated net of all performance fees.

5. Is $P_0$ greater than or equal to $P_1$? If yes, no further action required. If no, go to paragraph 6.

**Has there been out performance of the benchmark "BBSW1M" (the mid-point of the ASX 1-month Bank Bill Swap Reference Rate as determined at the beginning of the period)?**

6. Calculate unit price performance. Performance = $(P_1/P_0 - 1) \times 100$ expressed as a percentage.

7. Calculate benchmark performance Benchmark = ((1+ BBSW1M) ^ (1/12) – 1) x 100 expressed as a percentage.

8. Is Benchmark greater than Performance? If yes, no further action required. If no, go to paragraph 9.

**There is a performance fee payable. How much is it?**

9. Calculate the performance fee (F) as a percentage of assets at the end of period. F = (Performance - Benchmark) x 15.38%.

10. Calculate assets in period (A). A = end of month gross assets less borrowings.

11. Multiply assets in period "A" by "F" to obtain the dollar value of the performance fee.

12. Pay performance fee to Sandon Capital.

## Can the fees change?

Yes, all fees can change. The Trust Deed for the Fund sets the maximum amount that can be charged in fees. The approval of investors is needed in order to raise fees above the amounts allowed for in the Fund's Trust Deed.

You will receive at least 30 days' written notice of any proposed increase to fees (but not recoverable expenses) charged under this IM.

## Buy-Sell spread

When you invest in the Fund, the Fund buys investments, and this incurs costs (for example, to buy shares, a broker charges a fee). When you withdraw, investments are sold so cash can be paid to you, and this costs money too. This is called a buy-sell spread. A buy-sell spread is an adjustment to the unit price reflecting Fundhost's estimate of the transaction costs that may be incurred as a result of the purchase/sale of assets arising from the issue/withdrawal of units. This adjustment ensures that existing investors do not pay costs associated with other investors acquiring/withdrawing units in the Fund. The buy-sell spread is reflected in the buy and sell unit prices.

Currently, the buy-sell spread is estimated to be 0.80% of the unit price (that is an adjustment of +0.40% on the entry price and –0.40% on the exit price is made). So if the net asset value (NAV) of each unit is $1.00, on entry the unit price is adjusted up approximately 0.40% (up 0.4 cents) and on exit down approximately 0.40% (down 0.4 cents). None of this amount is paid to the Trustee nor is money deducted from your account. You won't see the buy-sell spread on any account statement.

## Can fees be different for different investors?

The Trustee may negotiate fees with investors. The size of the investment and other relevant factors may be taken into account. The terms of these arrangements are at the discretion of the Trustee on advice from Sandon Capital. Any fee rebates paid to investors are a cost to Sandon Capital and not to the Fund.

## Government charges and taxation

Taxes such as GST will be applied to your account if required by law. In addition to the fees and costs described in this section, standard government fees, duties and bank charges may also apply. Some of these charges may incur additional GST and will apply to your investments and withdrawals as appropriate.

The fees outlined in this document take into account any reduced input tax credits which may be available.

# WHAT ABOUT FUND PERFORMANCE?

If you are interested in:

- up to date Fund performance; or
- current unit prices

then ask your financial adviser, call Fundhost on +61 (0)2 8223 5400, or go to www.fundhost.com.au

Up to date information is always free of charge. Don't forget that any past returns are just that, just because they happened doesn't mean they will happen again. Returns are volatile and may go up and down significantly and sometimes quickly.

# HOW THE FUND WORKS

When you invest in the Fund your money (together with all other investors' monies) is gathered in one place and invested in assets. We have appointed Sandon Capital to manage the Fund. Sandon Capital uses its resources, experience and expertise to make the investment decisions.

We have appointed NAB as the independent custodian to hold the assets of the Fund.

## Units

The Fund is a unit trust. This means your interests in the Fund are represented by units. Certain rights (such as the right to any income and a right to vote) attach to your units. You may also have obligations in respect of your units.

Each unit has a value which we calculate. When you invest, we issue you a number of units depending on the amount you invest. Similarly, when you withdraw from the Fund, we calculate your withdrawal proceeds by reference to the number and value of units you hold at the time of withdrawal. Generally, the price of units will vary as the market value of assets in the Fund rises or falls.

# INVESTING IN THE FUND

## Investing and withdrawing

To invest in the Fund, use the application form accompanying this IM. The following minimum transactions, balance requirements and processing rules generally apply (although we may vary them at our discretion and without notice):

| Transaction | Details |
|---|---|
| **Minimum initial investment** | $250,000 |
| **Minimum additional investment** | $50,000 |
| **Minimum withdrawal** | $50,000 or remaining balance |
| **Minimum balance** | $250,000 |
| **Unit pricing frequency** | Monthly |

## Applications and withdrawals processing

Application requests will be processed monthly. If your application request and investment is received before 4pm Sydney time, 1 business day prior to month end, it will be processed using the unit price effective for that month. If it is received after 4pm, it will be processed effective for the following month.

We generally process redemption requests quarterly at 31 March, 30 June, 30 September and 31 December or the next business day (**Redemption Dates**). If your redemption request is received before 4pm Sydney time, 30 calendar days prior to a Redemption Date, it will be processed using the unit price effective for that Redemption Date. If it is received after this time, it will be processed effective for the following Redemption Date.

Please note that both application and redemption prices effective on a particular Redemption Date are not the same as the current prices shown on our website.

Additional investments can be made at any time in writing using the additional investment form.

You may make investments into the Fund with an initial amount of at least $250,000.

To apply, use the application form accompanying this IM.

The application form contains detailed instructions and will ask you to provide the identification documents required under the Anti-Money Laundering and Counter Terrorism Financing Act 2006 (**AML CTF Act**) and relevant tax legislation.

We do not earn interest, nor do we pay you interest, on application monies held prior to the time we issue units to you.

We accept signed application forms and certified copies of documents required to identify applicants (**Application Documents**) by email or fax as well as paper. Provided we receive clear and legible copies of your Application Documents by the cut off time, together with your application monies, we will process your application using the unit price effective for the month we receive your application monies and Application Documents. Applications via email need to be sent to admin@fundhost.com.au or by fax to +61 (0)2 9232 8600.

To apply for units in the Fund using electronic means, you must accept full responsibility (to the extent permitted by law) for any loss arising from us acting upon Application Documents received by email or fax.

You agree to release and indemnify Fundhost in respect of any liabilities arising from us acting on Application Documents received by email or fax, even if those documents are ultimately found to not be genuine. You also agree that neither you nor any other person has any claim against Fundhost in relation to a payment processed, units issued or other action taken by us if we rely on Application Documents received by email or fax.

# WITHDRAWING YOUR INVESTMENT

## Accessing your investment

Generally, you may access your investment at the end of each calendar quarter (March, June, September, December) by giving the Trustee at least 30 days' notice (in writing) of your intention to redeem. You must provide your written notice of withdrawal to us by mail.

Despite being able redeem your units quarterly, an investment in the Fund should be viewed as a medium to long term investment. This will ensure that Sandon Capital can effectively apply its activist strategies with the benefit of a reasonable timeframe in which to achieve its objectives. Redemptions may have an adverse impact on the application of the Fund's investment strategy and continuing unit holders.

## Liquidity gate

The Fund employs a feature known as a "liquidity gate." The liquidity gate of this Fund means that the Trustee is not obliged to allow redemptions representing more than 20% of the Fund's NAV during any single redemption period.

This feature is designed to minimise any adverse effects that redeeming investors may have on the application of the Fund's investment strategy and continuing unit holders.

In the event that investors redeeming from the Fund within a single redemption period represent more than 20% of the NAV of the Fund, then all redeeming investors will have their redemptions met pro rata, and any unmet redemptions shall be carried forward into the next redemption period. For example, if investors representing 25% of the NAV of the Fund seek to redeem their investment, then each investor will be entitled to redeem 80% of their redemption request. The remaining 20% (or 5% of NAV at that time) of the redemption request will be carried forward into the next redemption period. At the next redemption period, this process will be repeated.

For the avoidance of doubt, any redemption request carried forward will be redeemed at the prevailing redemption price in that next redemption period.

## How to withdraw

Units in the Fund are not listed on any stock exchange like the ASX, so you cannot sell your units through a stockbroker.

If you want to withdraw your money, simply contact us in writing and tell us how much you need to withdraw. This is called a redemption request.

We accept scanned or faxed redemption requests on the following conditions:

- all instructions must be legible;
- instructions must bear your investor number and signature; and
- redemption proceeds will only be transferred to the financial institution account previously nominated on the application form or otherwise notified to us in writing (we need an original signed by the account signatories to effect such a change).

To use this service, you will need to accept full responsibility (to the extent permitted by law) for loss arising from us acting upon faxed or scanned instructions which comply with these security processes and you also agree to release and indemnify us in respect of any liabilities arising from us acting on faxed or scanned instructions (including future instructions), even if those instructions are not genuine. Also you agree that neither you nor any other person has any claim against us in relation to a payment made or action taken under the facsimile or scanned instruction service if the payment is made in accordance with these conditions. These terms and conditions are additional to any other requirements for giving redemption instructions.

The amount of money you receive is determined by the unit price applicable to your redemption request. We can withhold from amounts we pay you any amount you owe us or we owe someone else relating to you (for example, the tax office).

We generally pay all redemption proceeds in cash, but we are permitted under the trust deed for the Fund to pay proceeds in kind (i.e. in specie share transfer).

## Payments can be delayed

In certain circumstances we may need to delay withdrawal of your money. We can delay withdrawal of your money for up to 180 days or such period as we consider appropriate in all the circumstances if:

- something outside our control affects our ability to properly or fairly calculate the unit price (for example, if the investments are subject to restrictions or if there is material market uncertainty like a stock market crash);
- we receive a quantity of withdrawal requests representing more than 20% of the value of the investments of the Fund. In this case we can stagger withdrawal payments; or
- we otherwise determine in our absolute discretion (but we must always act in the best interests of investors as a whole when deciding to do this).

## We can give you back your invested money without you asking

In certain circumstances we can, or may be required to, also redeem some or all of your units without you asking. These circumstances include:

- if you breach your obligations to us (for example, you provide misleading information in your unit application form);
- to satisfy any amount of money due to us (as trustee or in any other capacity relevant to the Fund) by you;
- to satisfy any amount of money we (as trustee or in any other capacity relevant to the Fund) owe someone else relating to you (for example, to the tax office);
- where we suspect that law prohibits you from legally being an investor; or
- such other circumstance as we determine in our absolute discretion (but we must always act in the best interests of investors as a whole when deciding to do this).

## How we calculate unit prices

We calculate unit prices in three steps:

- we calculate the value of the investments of the Fund and take away the value of the liabilities as defined in the Fund's trust deed;
- we divide this result by the number of units we have on issue to obtain the unit mid-price;
- we then make an adjustment (up for the entry price, to take account of the costs of buying investments or down for the exit price to take account of the costs of realising investments) called a buy-sell spread. The buy-sell spread does not represent a fee to Fundhost or Sandon Capital and is discussed in more detail in the section "Buy-sell spread"

These steps give us a price per unit.

We determine the market value of the Fund at least each month end based on the closing market prices for the last business day of that month.

# DISTRIBUTIONS

The Fund distributes net realised gains and income annually as at 30 June. Income distributions are usually reinvested at the end of each financial year (June), but you can tell us if you do not want to automatically reinvest distributions or advise us in writing anytime if you would like us to pay them to your nominated Bank Account. Any distributions reinvested are reinvested at the ex-distribution mid price.

# KEEPING YOU INFORMED

We will:

- confirm every transaction you make;
- soon after June each year send you a report to help you with your tax return;
- each year (around September) make the accounts of the Fund available to you on our website;
- send you your annual statement;
- notify you of any material changes to this IM and any other significant event as required by law.

# TAXATION

Your tax liability ultimately depends on your circumstances, for example, whether you are an Australian resident. So it's important that you seek professional advice before you invest or deal with your investment.

In all likelihood you will need to pay tax in relation to your investment in this Fund. Generally you will pay income or capital gains tax, but you might be able to claim some tax credits or have the benefit of some concessions.

We will send you the information you need each year to help you to complete your tax return.

We will generally distribute any income and realised gains, if any, quarterly. Distributions could comprise:

- income (like dividends and interest); and
- net taxable capital gains (from the sale of the Fund's investments).

Additionally, Australian residents are generally subject to capital gains tax on gains when they withdraw any money or transfer units.

Depending on the kind of taxpayer you are, and how long you have held your units, you may be entitled to a capital gains concession which can reduce the liability by up to one half.

If you choose not to provide us with your tax file number (**TFN**) or Australian business number (**ABN**) and don't have an exemption, we must deduct tax at the highest personal rate, plus the Medicare levy, before passing on any distribution to you. The law is very strict on how we can use these details.

You should seek your own tax advice to ensure the Fund is appropriate for you. Neither Fundhost nor Sandon Capital provide any tax advice.

A taxation regime for managed investment trusts has been introduced called the Attribution Managed Investment Trust (**AMIT**) regime. Subject to the Fund being eligible, Fundhost can elect to operate the Fund under this new regime. As an AMIT the Fund can attribute amounts of income and tax offsets to investors on a fair and reasonable basis. There is also an ability to adjust the cost base of an investor's interest in a Fund upwards or downwards. Should Fundhost make this election investors will be advised on our website.

# PRIVACY

We collect and use personal information about you to administer your investment and also to conduct research.

By applying for units in the Fund you consent and agree to information about you being obtained and used by us. Fundhost will collect and use your information in accordance with our Privacy Policy, a copy of which is available from Fundhost free of charge.

If you fail to provide us with the required information or if you provide us with incomplete or inaccurate information Fundhost may not be able to provide you with the products or services you are seeking within the time periods contemplated in this IM.

Your information will not be disclosed unless:

- the law requires;
- your financial adviser needs the information;
- it is in keeping with our Privacy Policy and may be provided to external service providers including Sandon Capital, the auditors, taxation and legal advisers, and information technology consultants; or
- Fundhost needs it to send you promotional material. If you don't want this, indicate on the application form or contact Fundhost anytime.

Fundhost will disclose information if required by law to do so (including under anti-money laundering and counter-terrorism financing legislation).

If you think any of the details that Fundhost holds are wrong or out of date contact Fundhost and they will correct the details. You can always access the personal information held about you by contacting Fundhost on +61 (0)2 8223 5400.

# ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING

In order to meet our obligations under anti-money laundering and counter-terrorism financing legislation (**AML CTF Act**), taxation legislation (including the Foreign Account Tax Compliance Act and Common Reporting Standards legislation) or other legislation, we may require further information from you as to identity, the source of your funds and similar matters. Fundhost may be required to verify that information by sighting appropriate documentation. Records of the information obtained will be kept and may be required by law to be disclosed. Otherwise the information will be kept confidential.

By applying for units in the Fund, you also agree that Fundhost may in its absolute discretion determine not to issue units to you, may cancel units which have been issued to you or may redeem any units issued to you if Fundhost believe such action to be necessary or desirable in light of its obligations under the AML CTF Act or other legislation and Fundhost will not be liable to you for any resulting loss.

# SUMMARY OF TRUST DEED

The Fund is governed by a Trust Deed dated on or about 23 April 2009, as amended. The Trust Deed sets out our obligations as well as the rights of investors. Key aspects of the Trust Deed have been summarised in this section.

We may alter the Trust Deed.

You may view a copy of the Trust Deed at our offices on any Business Day and you may obtain a copy free of charge by contacting us.

## Classes of units

Under the Trust Deed for the Fund, we may issue units in one or more classes and may create additional classes of units at any time.

## Rights of investors

Subject to the Trust Deed of the Fund, investors are generally entitled to:

- receive a share of the Fund's distributable income;
- request a redemption of units;
- transfer units; and
- inspect the Trust Deed.

## Unitholder meetings

Subject to the Trust Deed of the Fund, investors are also entitled to requisition, attend and vote at investors' meetings for the Fund. An investor is bound by a resolution of investors, whether or not they attend the meeting at which it is passed.

## Interest in the Fund

Each unit issued in the Fund entitles the investor to a beneficial interest in the total investments of the Fund but does not give the investor an interest in any particular part of the Fund.

## Unitholder liability

The Trust Deed limits an investor's liability in the Fund to the amount the investor has invested, however the law in relation to investor liability has not yet been settled. Under the Trust Deed we can recover from you any taxes or other amounts that the Fund is required to pay because you hold units or because of any action you have taken or failed to take, either by deduction from amounts payable to you or by redemption of some of your units.

## Termination of the Fund

We can terminate the Fund at any time at our discretion or when required by law. If the Fund is terminated, we must generally convert the Fund's assets to cash and pay off the Fund's liabilities (including those incurred in winding up the Fund and any unpaid fees including performance fees).

Investors are then entitled to a share of the balance of the assets in accordance with the Trust Deed. This will be the final distribution of the Fund. The final distribution may include both a capital and income component.

# ELIGIBLE INVESTOR

To be an Eligible Investor, you must satisfy one of these criteria:

- Invest at least A$500,000 at one time (excluding superannuation sourced monies[1]);
- Provide the Trustee with an accountant certificate (in form annexed) which is less than 24 months old indicating that the applicant has either net assets of least $2.5 million or a gross income for each of the last 2 financial years of at least $250,000 a year[2];
- Be a company or trust controlled by someone who has a certificate from a qualified accountant (such certificate referred to in the category immediately prior);
- Be a business that is not a small business (that is, companies that employ more than 20 people or 100 people if they are a manufacturer);
- Hold an Australian Financial Services Licence;
- Control at least $10 million (including any amount held by an associate or under a trust that the applicant(s) manages);
- Be regulated by the Australian Prudential Regulatory Authority other than a trustee of an Australian superannuation fund, approved deposit fund, pooled superannuation trust or public sector superannuation scheme;
- Be the trustee of an Australian superannuation fund, approved deposit fund, pooled superannuation trust or public sector superannuation scheme with assets of at least $10 million;
- Be a body registered under the *Financial Corporations Act 1974* of the Commonwealth of Australia;
- Be an exempt public authority;
- Be a listed entity or a related body corporate of a listed entity;
- Be a related body corporate of a wholesale client;
- Carry on a business of investment in financial products, interests in land or other investments and invest funds received (directly or indirectly) following an offer or invitation to the public, the terms of which provided for the funds subscribed to be invested for those purposes;
- Be a foreign entity that, if established or incorporated in Australia, would be covered by one of the preceding paragraphs; or
- An Australian financial services licensee (or its representative) considers the investor has requisite experience to invest in the Fund.

[1]Superannuation sourced monies are monies which the applicant knows the superannuation trustee will pay to a person as a superannuation lump sum or has been paid as an eligible termination payment or lump sum.

[2]In calculating the $2.5 million or $250,000 the person can include the net assets or gross income (as relevant) of any company or trust the person controls.

# CUSTODIAN

Fundhost has appointed NAB as custodian of this fund. NAB's role as custodian is limited to holding the assets of the Fund as Fundhost's agent. NAB has no supervisory role in relation to the operation of the Fund and is not responsible for protecting your interests. NAB has no liability or responsibility to you for any act done or omission made in accordance with the terms of the Custody Agreement. NAB makes no statement in the IM and has not authorised or caused the issue of it. Investments of the Fund do not represent investments in, deposits with, or other liabilities of, NAB or any other member of the NAB group of companies (**NAB Group**). Neither NAB, nor any other member of NAB Group, in any way stands behind the capital value, nor do they guarantee the performance of the investment or the underlying assets of the Fund, or provide a guarantee or assurance in respect of the obligations of Fundhost or its related entities.

# RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

Fundhost does not engage in any related party transactions with any person. All dealings with other parties are at commercial, arms' length terms.

Fundhost has a conflicts of interest policy and register which it maintains in accordance with the law. It seeks to address any conflicts that may arise as part of Fundhost's business and that relate to the Fund and the Fund specifically.

Sandon Capital is the Investment Manager for other funds that invest in many of the same assets as this Fund. Sandon endeavours to ensure that all portfolios are treated fairly by ensuring that, in general, trades in the assets are undertaken as block trades and allocated pro rata according to the size of each portfolio.