

# Aquasia Enhanced Credit Fund

Information Memorandum

February 2020



## Important Information - All Investors

This revised information memorandum (**Information Memorandum** or **IM**) dated February 2020 has been issued by Aquasia Pty Ltd (**Aquasia**), AFSL 337872, ABN 20 136 522 051, the Trustee, Manager and Investment Manager for the Aquasia Enhanced Credit Fund (**the Fund**) to offer units (**Units**) in the Fund. The Fund is a managed investment scheme which is not registered with the Australian Securities and Investment Commission (**ASIC**) and this IM has not been lodged with ASIC.

This IM is not required to be, and does not include all the information that would be required in, a product disclosure statement and an investor is not provided with the protections afforded to an investor in a managed investment scheme that has been registered with ASIC under the Corporations Act 2001 (Cth) (the **Corporations Act**).

The offer and/or invitation are set out entirely in this IM. Prospective investors should read this IM in its entirety prior to investing and where appropriate seek independent professional investment, taxation and legal advice before deciding to invest in the Fund. The IM should be read in conjunction with the Fund's constitution (**Constitution**) a copy of which is available from Aquasia.

The Fund is governed by its Constitution. To the extent of any inconsistency between this IM and the Constitution, the provisions of the Constitution will prevail.

Applications for Units will only be offered to persons receiving a copy of this IM (electronic or otherwise) in Australia, or other jurisdictions where it is lawful to do so, and who qualify as 'wholesale clients' for the purposes of Section 761G of the Corporations Act (**Wholesale Clients**) or applicable provisions under New Zealand law (as set out in the following sections).

To the fullest extent permitted by law neither Aquasia nor any related party, officer, director nor associate provides or accepts any representations or warranties in relation to this IM or the Fund.

The information contained in this IM has been furnished by Aquasia but no assurance is given by Aquasia or anyone else named in or associated with the issue of this IM as to the accuracy or completeness of this information.

Aquasia does not guarantee the performance of the Fund, the rate of income, the return of capital to the investors, any particular rate of return or any taxation consequences of any investment made in the Fund.

The information contained in this IM is general information only and does not take into account an investor's objectives, financial situation or needs. Before acting on the information contained in this IM, investors should consider the appropriateness of the information in this IM having regard to their objectives, financial situation and needs.

If information in this IM changes, and it is not a material change, we may update the information by posting the updated information on our website [www.aquasia.com.au](http://www.aquasia.com.au) or an investor can also obtain this information by calling Aquasia on +61 2 8061 4888.

All references A\$ are to Australian Dollars and NZ\$ are to New Zealand Dollars. Capitalised terms in this IM are defined terms and they are listed in the Glossary or defined elsewhere in the IM. Days are calendar days unless otherwise specified as Business Days and 'month' and 'quarter' are calendar month and calendar quarter respectively unless stated otherwise.

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# Important Information for New Zealand Investors

WARNING (please read the following important information): The offer of units in the Aquasia Enhanced Credit Fund (**the Fund**) is not being, and will not be, offered or sold in New Zealand to persons other than “wholesale investors” within the meaning of:

- clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 (**FMCA Schedule 1**) which covers “investment businesses”, persons meeting the “investment activity criteria”, “large” persons and “government agencies” as defined in each case in FMCA Schedule 1 (**Institutional Wholesale Investor**);
- clauses 3(3)(a) and 41 of the FMCA Schedule 1 which covers “eligible investors” (**Eligible Investor**); and
- clause 3(3)(b)(i) or (ii) of FMCA Schedule 1 which covers investors meeting the NZ\$750,000 minimum investment amount criteria (**Minimum Investment Exclusion**).

The information referred to on the pages that follow is restricted in New Zealand to persons in these “wholesale investors” categories.

Applications or any requests for information from persons in New Zealand who do not meet the above criteria will not be accepted.

If you are a New Zealand investor, and apply for Units in the Fund, you warrant that you meet the above eligibility criteria and agree that you will not sell your interest in the Fund to any person who is not a “wholesale investor” or to any person within 12 months after they are issued, in circumstances where disclosure would be required under Part 3 of the Financial Markets Conduct Act 2013 or in circumstances which may result in Aquasia or any of its directors or related bodies corporate incurring any liability whatsoever.

If you are an **Institutional Wholesale Investor**, you agree to provide a certificate to the issuer of the Fund in the form attached as Appendix 1A together with this document prior to investing in the Fund.

If you are an **Eligible Investor** you agree to provide a certificate to the issuer of the Fund (which includes details of your experience with financial products) in the form attached as Appendix 1B and arrange for confirmation of the certificate by a lawyer, qualified statutory accountant or authorised financial advisor prior to investing in the Fund.

If you are investing in the Fund in reliance on the Eligible Investor Exclusion, the following warning statement is important in relation to your investment in the Fund:

## WARNING

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because there is an exclusion for offers where the amount invested upfront by the investor (plus any other investments the investor has already made in the financial products) is NZ\$750,000 or more. As a result of this exclusion, you may not receive a complete and balanced set of information. You will also have fewer other legal protections for these investments.

Investments of this kind are not suitable for retail investors.

Ask questions, read all documents carefully, and seek independent financial advice.

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If you are investing in the Fund in reliance on the Minimum Investment Exclusion, the following warning statement is important in relation to your investment in the Fund:

**WARNING**

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because there is an exclusion for offers where the amount invested upfront by the investor (plus any other investments the investor has already made in the financial products) is NZ\$750,000 or more. As a result of this exclusion, you may not receive a complete and balanced set of information. You will also have fewer other legal protections for these investments.

Investments of this kind are not suitable for retail investors.

Ask questions, read all documents carefully, and seek independent financial advice.

**Offence**

It is an offence to give a certificate knowing that it is false or misleading in a material particular. The offence has a penalty or a fine not exceeding NZ\$50,000.

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1 February 2020

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Dear Investor

It is my great pleasure to invite you to become a Unitholder in the Aquasia Enhanced Credit Fund (the **Fund**), an unregistered managed investment scheme which was launched in October 2011.

The Fund invests in a range of fixed-income, credit, cash and cash-equivalent assets. The Fund targets a return in excess of the Bloomberg AusBond Bank Bill Index plus 3% and suits Investors who are looking for regular income distributions with some potential for capital gains. The Fund is for Wholesale Clients only and is most suited to investors who have an investment horizon of two to five years.

Aquasia Pty Ltd (**Aquasia**) continues to see good investment opportunities in today's credit and fixed-income markets generally, with opportunities to enhance returns through the acquisition of assets from financial institutions or sellers disposing of quality financial assets or portfolios for strategic reasons or to restructure their assets to satisfy prudential requirements.

Aquasia acts as the Trustee, Manager and Investment Manager for the Fund. The Aquasia team has extensive experience in the credit and fixed-income markets which gives it a strong understanding of market dynamics and the changes taking place in the regulatory environment. Further, Aquasia's wide network of contacts within the financial community means it is able to identify suitable fixed-income and credit asset opportunities for the Fund.

Aquasia's Principal Partners and Directors, Colin McKeith and Angus James, are investors in the Fund, aligning Aquasia's interests with those of other investors.

I urge prospective investors in the Fund to read this Information Memorandum carefully before investing. Particular attention should be paid to page 11 of this Information Memorandum which outlines the risks associated with investing in the Fund.

I look forward to welcoming you as a Unitholder in the Aquasia Enhanced Credit Fund.

Yours sincerely

A handwritten signature in black ink, appearing to read "Col. McKeith".

Colin McKeith  
Principal Partner/Director  
Aquasia Pty Ltd

## Summary of the Fund

<b>The Investment</b>	Units in Aquasia Enhanced Credit Fund, an open-ended unit trust.
<b>Investor Class</b>	Wholesale Clients only.
<b>Minimum Initial Investment</b>	A\$50,000. Full details on page 13.
<b>Target Return</b>	Bloomberg AusBond Bank Bill Index plus 3%. Aquasia may replace the benchmark index with another similar index should the existing index become redundant or inappropriate.
<b>Investment Objective</b>	To preserve capital and achieve returns over the medium term in excess of the Target Return.
<b>Investment Strategy</b>	The Fund invests in a range of fixed-income, credit, cash and cash-equivalent assets.
<b>Types of Investments</b>	RMBS, other ABS, Subordinated Debt, structured credit, corporate loans and bonds and Hybrid Securities. At least 40% of the Fund will be invested in Investment Grade assets. The Fund will invest predominantly in Australian Dollar denominated assets.
<b>Investment Horizon</b>	2 to 5 years
<b>Manager, Trustee and Investment Manager</b>	Aquasia Pty Ltd ABN 20 136 522 051 AFSL 337 872
<b>Custodian</b>	Sargon CT Pty Ltd
<b>Distributions</b>	Distributions are paid quarterly.
<b>Applications</b>	Applications of a minimum of A\$50,000, must be received by 3.00pm Sydney time at least two Business Days prior to the last Business Day of each month. Full details on page 13.
<b>Redemptions</b>	A minimum tranche of A\$50,000 may be redeemed at the end of each month (provided that the Unitholder maintains a minimum investment of A\$50,000). Full details on page 14.
<b>Management Fee</b>	1% p.a. (excl GST) of the Net Asset Value of the Fund, calculated and paid monthly.
<b>Expense Recovery</b>	Capped at 0.25% p.a. (excl GST) of the Net Asset Value of the Fund.
<b>Buy/Sell Spread</b>	0.20% Buy Spread / 0.20% Sell Spread. Full details on page 15.
<b>Performance Fee</b>	20% of the Fund's out-performance of the Target Return. Full details on page 16.



# Overview of Aquasia, the Fund Team and the Fund Investment Committee

## Aquasia Pty Ltd

Aquasia is an independent, licensed, financial services business. Aquasia's senior staff have a deep understanding of debt and equity markets, treasury and other financial risk and derivative products and a wide network of contacts within banks, institutional investors and corporates.

The Aquasia team has expertise in the establishment and management of wholesale funds and syndicates investing in a range of credit and fixed-income assets.

Further information on Aquasia can be found at [www.aquasia.com.au](http://www.aquasia.com.au).

## The Aquasia Enhanced Credit Fund Team

The key Aquasia personnel who will be involved with the Fund are:

### James McNabb – Portfolio Manager of the Fund

James has over 25 years' experience in the financial markets as a trader and structurer of fixed-income products and has worked in Australia, London, New York and Singapore. At Aquasia, James is responsible for managing Aquasia's two current credit funds.

James previously worked at ABN AMRO Australia, most recently as an Executive Director of the firm's infrastructure team in Sydney. Before that he was the Global Head of credit derivative trading and Global Head of Structuring for interest rates and credit for ABN AMRO Bank NV in London.

Prior to joining ABN AMRO Bank NV, James was a senior trader of credit and interest rate derivatives for UBS AG in Singapore where he was Co-Head of structured credit trading for Asia. Before this he was Head of Swiss Banking Corporation's USD interest rate exotics trading in New York.

James has managed the Fund since its inception in October 2011.

James has a Bachelor of Science (Physics) from Melbourne University and an MBA in finance from Columbia University. He is a graduate of the Australian Institute of Company Directors.

### Colin McKeith – Principal Partner/ Director, Aquasia and Senior Adviser to the Fund

Colin is a Co-Founder of Aquasia and is responsible for Aquasia's debt, derivatives markets and funds management businesses. He has been involved in the Australian financial markets since 1980. Colin has developed his career alongside the opening up and deregulation of the banking system. He has experience across a wide range of disciplines from product development through to trading and distribution roles.

Prior to Aquasia, Colin was Head of Global Markets at ABN AMRO Australia and New Zealand and was responsible for the debt, equity and balance sheet activities of the bank including the structured finance and specialised asset management areas. He was also the Chairman of the investments committee that approved all equity principal investments for the bank, including its investments in Australian infrastructure. He was also a Board Member of ABN AMRO Australia Holdings, the local banking branch of ABN AMRO Australia, and a member of its management team for 11 years.

Prior to joining ABN AMRO Australia, Colin spent 14 years at Citibank in Sydney and London. During Colin's time at Citibank he was in charge of the fixed-income activities in Australia, with his last role being the Head of Capital Markets overseeing all of the capital markets and loan activities for the bank in Australia.

Colin is also a past Non-Executive Director of Wizard Mortgage Corporation and Southern Cross Station (Spencer Street Station).

### **Kelly Fraser – Risk Management, Compliance and Administration for the Fund**

Kelly is Aquasia's Chief Operating Officer and has over 20 years' experience across a broad range of operational roles in financial markets.

Prior to Aquasia, Kelly's most recent position was Chief Operating Officer of Global Markets for ABN AMRO Australia.

Before this, she worked in ABN AMRO Bank NV's London office for four years with the latter half of her time there spent as Business Manager for the global G11 rates trading business.

Previously, Kelly spent nine years as a market risk specialist, working at ABN AMRO Australia in Sydney and London, and Bankers Trust in Sydney, in varying capacities. Kelly held risk manager positions for the equities, fixed-income, derivative, treasury/FX and proprietary trading activities at these banks.

Kelly has a Bachelor of Economics from Sydney University.

### **Stuart Richardson - Distribution and Asset Origination**

Stuart has over 25 years experience in the financial services industry covering banking, asset management and wealth management. Before joining Aquasia Stuart was a Director at Credit Suisse AG in Sydney covering superannuation funds, asset managers and family offices with a focus on alternative investments.

Before moving to Sydney Stuart worked in New Zealand for First NZ Capital Securities Limited where he managed investment portfolios for family offices and high net worth individuals. Prior this he was Head of Corporate and Institutional Sales at ABN AMRO. During Stuart's career he was also Head of Sales in the Financial Markets division of The National Bank of New Zealand.

Stuart holds a Bachelor of Commerce degree in Economics from the University of Auckland and an NZX Diploma.

## **Aquasia Enhanced Credit Fund Investment Committee**

The Fund's investment committee ('Investment Committee') oversees the activities of the Fund from an investment, operational and compliance perspective. Its Charter requires it to establish and oversee the Fund's investment strategy to protect capital while delivering above benchmark returns. The Investment Committee meets monthly to monitor and review all aspects of the Fund's investments and operations.

The Investment Committee comprises the key Aquasia personnel above and an independent committee member.

## **Mark Hopkinson – Independent Investment Committee Member**

Mark Hopkinson has been involved in the Australian and international financial markets for over 35 years. Between 2007 and 2013 he was a Non-Executive Director of Schroders Asian Property Managers Limited (**SAPML**), the General Partner of the Schroders Asian Property Fund, a USD300million plus fund investing in Asian real estate. SAPML managed the investments and governance of the Schroders Asian Property Fund.

The fund has closed and has now returned cash to investors, having reached the end of its planned investment life.

Prior to his role with SAPML, Mark worked for 20 years in the Schroder Group in London, Sydney and Asia, concluding with the role of Group Managing Director, Investment Banking in Asia between 1997 and 2000.

Mark's responsibilities at the Schroder Group were principally for trading, structuring and risk management. He took a prominent role in the development of the swap and structured investment markets in the 1980s. He was responsible for the management of trading in futures, synthetic instruments and cash bonds in the 1990s. In the later 1990s, as Group Managing Director of Financial Markets in the Asian region, Mark prepared for and managed the impact of the Asian financial crisis on Schroders' credit and liquidity exposures.

Mark has an MA (Hons) in English and a Master of Studies in History from Oxford University.

# Investment Approach

## Objective

The Fund's investment objective is to preserve capital while producing returns over the medium-term in excess of the Target Return of the Bloomberg AusBond Bank Bill Index plus 3%.

## Strategy

The Fund invests in credit, fixed-income, cash and cash-equivalent assets. The Fund is designed for investors who wish to have exposure to such assets and who are looking for regular income distributions with some potential for capital gains. Given the potential illiquidity of some of the Fund's assets, the Fund is most suited for investors who have an investment horizon of two to five years.

Investments are sourced from Aquasia's wide network of contacts and are added to the Fund's portfolio if, in Aquasia's view, they provide the appropriate risk/return profile for the Fund. Aquasia can access attractively-priced assets from various sources, including banks disposing of businesses, books or assets for strategic reasons, banks and other investors selling assets for the purposes of managing capital as prudential rules change, receivers selling portfolios of financial assets and Aquasia's own origination function. If assets are sourced through Aquasia's advisory or origination businesses, the transactions will occur on an arm's-length basis and in accordance with Aquasia's conflicts of interest policy.

Aquasia intends that at least 40% of the Fund is invested in assets that are rated Investment Grade and that the Fund's portfolio will have the characteristics summarised in the following table.

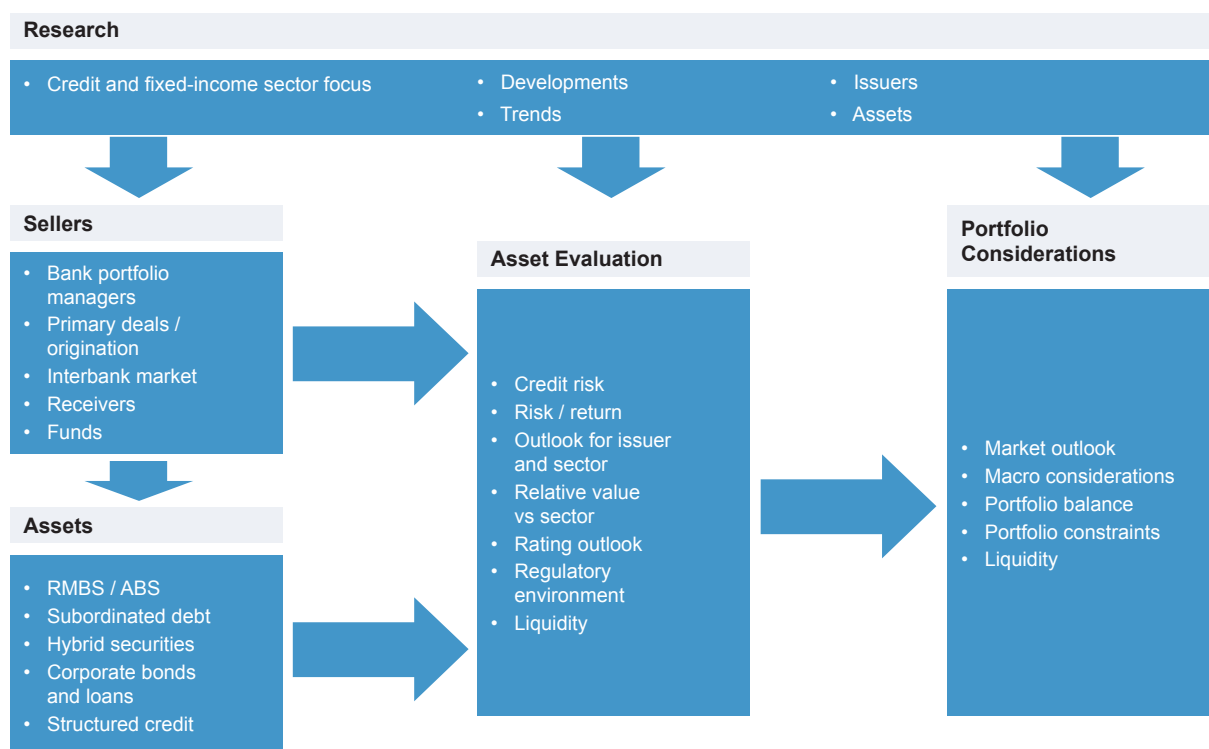
Characteristic	Fund Portfolio Constraints
Geographical	Focus on Australian Opportunities
Credit Rating	>40% Investment Grade assets. Balance in unrated or sub-Investment Grade assets.
Currency	>80% A\$ (or hedged back to A\$) assets.
Interest rate	Predominantly floating rate assets. <25% unhedged fixed rate and zero coupon assets (unless <15 months maturity).
Leverage	Up to 20% borrowing if required
Liquidity	Liquid and illiquid assets. Illiquid assets only when return considered adequate for risk.
Issuer Concentration	<20% exposure to single issuer unless AA-/Aa3 or better.
Sector Concentration	<25% Subordinated Debt and Hybrid Securities of banks and financial institutions.
Listed/unlisted	Majority of assets unlisted.

A more detailed description of the Fund's intended portfolio characteristics is provided at page 9.

While the Fund generally buys assets on a hold-to-maturity basis the manager actively monitors the positions in the portfolio with a view to optimising unitholder returns, and sells assets when it believes that there is limited value remaining relative to other opportunities in the market.

## Investment Process

The Fund's investment process is summarised below:



### Research

Aquasia researches financial markets to identify developments and trends in general, and in the credit and fixed-income sectors in particular. Aquasia also undertakes detailed research on suitable assets and their issuer(s). Aquasia's research informs and shapes the seller/asset identification, evaluation and portfolio consideration phases of the Fund's investment process.

### Identifying Seller/Assets

Aquasia sources assets through its networks, with a particular view to finding motivated sellers of undervalued assets. As part of this process Aquasia uses its deep knowledge of the markets and extensive contacts, together with an understanding of longer-term market dynamics and changes in the regulatory environment.

### Evaluating Assets

Aquasia evaluates assets by examining the underlying credit quality, risk/return profile and the name, sector, liquidity, rating and regulatory outlook of each asset.

### Portfolio Considerations

Aquasia examines assets in view of the broader portfolio, including overall macro considerations and outlook, the portfolio mix, hedging, liquidity and rating and interest rate targets.

## Review Process – Investment Committee and Audit

The Investment Committee meets monthly in order to:

- Review the Fund's performance.
- Ensure that the Fund is operating within its constraints (see page 7).
- Review and approve the end-of-month valuations.

The Investment Committee comprises four Aquasia personnel and one independent committee member. At the time of this IM, the Investment Committee comprises James McNabb, Colin McKeith, Kelly Fraser and Stuart Richardson (Aquasia) and Mark Hopkinson (Independent).

In addition, at the end of each financial year the valuation of the Fund's assets is reviewed by the Fund's auditor.

## Portfolio Assets

Examples of assets the Fund may hold include:

- Senior and mezzanine tranches of Residential Mortgage-Backed Securities ('RMBS').
- Senior and mezzanine tranches of other asset-backed securities ('ABS').
- Subordinated Debt of banks and other financial institutions.
- Structured credit (e.g. credit-linked notes, zero coupon bonds).
- Senior and subordinated corporate bonds and loans.
- Listed and unlisted hybrid Securities.
- Cash and government bonds.
- Specialist private market lending.

## Portfolio Characteristics

The Fund's portfolio will have the characteristics set out below.

### Credit Rating

The Fund's assets may be rated or unrated. The Fund targets at least 40% of the value of its assets to be invested in assets that are Investment Grade at the time that the assets are acquired. Cash deposits with an Authorised Deposit-Taking Institution (**ADI**) will be counted towards this target.

Market movements, downgrades, maturities or other reasons may result in the Fund having less than 40% Investment Grade assets. If this occurs Aquasia is not required to actively rebalance the portfolio to maintain this 40% minimum target, but will not take any action which would further reduce the percentage of Investment Grade assets in the portfolio.

### Currency

The Fund invests predominantly in Australian Dollar - denominated assets. However, in addition to investing in Australian Dollar assets, the Fund may from time to time invest in assets denominated in New Zealand Dollars. It may also invest in assets denominated in foreign currencies other than New Zealand Dollars (**Other Foreign Currencies**). Aquasia's intention with regard to hedging New Zealand Dollar and Other Foreign Currencies exposure is set out below. Currency hedges available to the Fund may include forwards, futures and options.

### Hedging Strategy

If the combined value of Other Foreign Currencies assets exceeds 10% of the value of the assets of the Fund then Aquasia will hedge the Other Foreign Currencies exposure in excess of this 10%. In the event the Fund has exposure to New Zealand Dollar assets but no exposure to assets denominated in Other Foreign Currencies then if the value of New Zealand Dollar assets exceeds 20% of the value of the assets of the Fund Aquasia will hedge the New Zealand Dollar exposure in excess of this 20%.

If the combined value of New Zealand Dollar and Other Foreign Currencies assets exceeds 20% of the value of the assets of the Fund, subject to the 10% limitation for unhedged combined Other Foreign Currencies exposure above, Aquasia will hedge the New Zealand Dollar and Other Foreign Currencies exposure in excess of this 20%.

The following table illustrates examples of the Fund's hedging strategy:

<b>Hedging Not Required</b>	<b>Hedging Required</b>
8% USD	12% USD → Hedge the 2% exposure over the 10% limit
18% NZD	22% NZD → Hedge the 2% exposure over the 20% limit
4% USD + 5% JPY	4% USD + 8% JPY → Hedge the 2% exposure over the 10% combined limit

## Interest Rate

While it is intended that the Fund will predominantly invest in floating rate assets the Fund may invest in fixed rate assets as well, including zero coupon assets.

As the Fund's Target Return is based on a floating rate index and the Fund's investment strategy is not focused around trading interest rate risk, it is anticipated that not more than 25% of the value of Fund's assets will be in unhedged fixed-interest instruments with maturities longer than 15 months. If the value of fixed-interest instruments with maturities longer than 15 months exceeds 25% of the value of the assets of the Fund then Aquasia intends to hedge the interest rate exposure of these instruments in excess of this 25%. Interest rate hedges available to the Fund may include swaps, options and futures.

## Leverage

While the Fund is not expected to be an active user of leverage, it has the ability to borrow up to 20% of the value of the assets of the Fund from time to time to meet short-term liquidity needs. This may be done through direct borrowings or repurchase agreements. The expected term of any borrowing shall be no more than 60 days.

## Liquidity

The Fund invests in a mixture of liquid and illiquid assets. Care is taken to match the expected liquidity of the portfolio to the Fund's own liquidity objectives and needs. Illiquid investments will generally only be acquired when Aquasia believes there is an adequate return for the risk and the illiquidity, and will be acquired on a hold-to-expected-maturity basis.

## Issuer Concentration

The Fund aims to have no exposure greater than 20% of the value of its assets to any single issuer, except cash or short-term deposits with an ADI whose short-term rating is A-1/P-1 and any assets whose long-term rating is AA- by Standard & Poors' or Aa3 by Moody's or better.

## Sector Concentration

The Fund aims to have no more than 25% of the value of its assets invested in Subordinated Debt and Hybrid Securities issued by banks and financial institutions. For the sake of clarity, this does not apply to ABS and RMBS originated by or sponsored by such institutions.

## Listed/Unlisted

The Fund's assets may be listed or unlisted. It is anticipated that the majority of the Fund's assets will be unlisted.



# Risks

It is important to understand the risks associated with investing in the Fund. The nature of investment markets is such that the return on investment markets, as well as individual investments, can vary significantly and future returns are unpredictable. In the event that any of the risks described on the following pages eventuate then they may impact upon the value of the Fund's assets and hence Unit prices and the extent to which the Fund is able to make distributions and permit redemptions. Different types of investments perform differently at different times and have different risk characteristics and volatility.

The risks and therefore return on the Fund's investments are influenced by various factors, including many outside the control of Aquasia, such as domestic and international markets, economic conditions, political climates, interest rates, currencies and inflation. The significant risks that may affect the performance or value of an investor's investment include those set out below. The higher the concentration of the Fund to these risk factors, the greater the impact on the Fund value if a particular risk event were to occur.

Investors should consider their investment objectives, timeframe and risk tolerance before investing in the Fund. Aquasia recommends that investors obtain appropriate professional investment, taxation and legal advice having regard to their individual circumstances prior to investing in the Fund.

## Liquidity Risk

A proportion of the Fund's assets is invested in assets which are generally illiquid, and even those assets which are liquid in normal markets may become illiquid under market conditions which are adverse. The liquidity of an asset may also affect its value, especially in a situation where the Fund is forced to sell assets to facilitate redemptions at a time when it is not advantageous to do so.

Aquasia cannot provide any guarantees as to the liquidity of the Fund's assets or of an ability to make a redemption from the Fund.

## Market Risk

The market value of the Fund's assets could decrease. The market risk in relation to the assets the Fund invests in is broadly affected by factors including, but not limited to, interest rate movements, changes in ratings, political policies, legislation, technology, infrastructure, investor sentiment, employment levels, currencies, broader economic conditions and changes in the perceived or actual creditworthiness of the borrower or any underlying security.

## Credit Risk

While Aquasia will exercise due diligence and skill and expertise in selecting investments, there may still be credit losses in the Fund's portfolio. Aquasia actively monitors the portfolio and will attempt to trade out of positions which appear to be deteriorating, but this cannot be guaranteed.

## Counterparty Risk

There is a risk that the Fund's counterparties may become insolvent or are otherwise not able to meet their obligations to the Fund.

## Interest Rate Risk

Aquasia manages the Fund's portfolio against a floating rate benchmark. To the extent that the Fund holds fixed rate assets with maturities exceeding 15 months, Aquasia aims to hedge interest rate exposures of those assets as set out in the 'Interest Rate' sub-section on page 10 of this IM. However, there can be no assurance that Aquasia will be able to do so and there may be residual interest rate risk arising from imperfect hedging and general market conditions associated with changes in interest rates.

## Currency Risk

While most of the Fund's assets are expected to be Australian Dollar-denominated, the Fund may from time to time buy assets in other currencies. Aquasia aims to hedge currency risk as set out in the 'Hedging Strategy' sub-section on page 9 of this IM.



### **Derivatives Risk**

Derivatives instruments may be used to manage interest rate or currency risk. The value of a derivative may fail to move in line with value of the underlying asset or rate. As a consequence, the derivative may not perfectly hedge the underlying risk. Further risks include the potential illiquidity of the derivative and exposure to the credit-worthiness of the derivative counterparty. The Fund may also have to hold sufficient cash or cash-equivalent assets to meet any potential losses from a derivative instrument.

### **Leverage Risk**

The Fund has the ability to borrow up to 20% of the value of its assets for the purpose of managing short-term liquidity. In addition, some of the Fund's assets may be internally leveraged via embedded credit derivatives or subordination. The leverage risk of the Fund's borrowing and in relation to assets the Fund may invest in are the same as those factors identified in the 'Market Risk' sub-section above.

### **Personnel Risk**

Personnel risk is the risk that key people who are significant to the management of the Fund become unable or unavailable to perform their role. The Aquasia Enhanced Credit Fund Team may change, which may affect the Fund's future performance.

### **Fund Risk**

There are certain inherent risks in any collective investment such as a managed fund. Investing in the Fund may result in a different outcome to investing directly because of the application of tax laws to the Fund, income or capital gains accrued in the Fund, fees and expenses, the impact of investments into and redemptions from the Fund by other investors and the possibility that the Fund may be terminated. Further, the costs associated with an investor's investment may increase through an increase in fees and expenses.

### **Tax Risk**

The tax treatment and tax risk of an investment in the Fund is discussed in the 'Taxation' sections on pages 21 to 26 of this IM. Tax laws are subject to continuous change, which can operate retroactively.

# Investing in the Fund

## Minimum Investment

The minimum initial investment in the Fund (and the minimum holding) is A\$50,000 and the minimum further investment is A\$50,000. Aquasia may, in its absolute discretion, reduce the minimum initial investment, the minimum holding or the minimum further investment amounts in the Fund.

## Wholesale Clients Only

Australian Investors wishing to invest with amounts of less than A\$500,000 (or NZ\$750,000 for New Zealand Investors) must demonstrate, to the satisfaction of Aquasia, that they are Wholesale Clients. The qualification requirements for an Australian Wholesale Client are outlined in Section 761G of the Corporations Act and set out on the Application Form.

The requirements for a New Zealand Wholesale Client are set out in Schedule 1 of the Financial Markets Conduct Act NZ 2013 and the Application Form. New Zealand Investors will be required to provide a certificate in the form of Appendix 1A or 1B (whichever is applicable).

## Applying

All applications for Units must be made on the original application form accompanying this IM (**Application Form**). Additional copies of the IM are available from Aquasia. (Applications received by facsimile or other electronic means will not be accepted without prior agreement by Aquasia.)

To make an application, investors must send a completed Application Form together with cleared application monies to Aquasia to be received by 3:00pm Sydney time at least two Business Days prior to the last Business Day of each month or such other times and dates as Aquasia may determine in its discretion.

All applications by new investors must provide supporting identification documents as part of the requirements of the Anti-Money Laundering and Counter Terrorism Financing regime (**AML/CTF Law**). These identification and verification requirements are outlined in the AML/CTF Law verification checklists which are set out on the Application Form.

Applications will only be accepted if Aquasia is satisfied with all details disclosed in the Application Form and associated client identification and verification requirements and Wholesale Client checks have been satisfied. Aquasia may refuse to accept any application (in whole or part) in its absolute discretion.

## Issue Price

The price at which Units are issued to investors is calculated on a per Unit basis (the 'Issue Price'). The Issue Price is calculated by determining the Net Asset Value of the Fund as at the close of market on the last Business Day of each month (following the receipt of both the Application Form and the relevant cleared application monies), dividing this amount by the number of Units on issue as at that time and date, plus Buy Spread (currently 0.20% of the Net Asset Value per Unit).

## Valuation

The Net Asset Value of the Fund is calculated in accordance with the Constitution at the close of the market on the last Business Day of each month, or such other times and dates as Aquasia may determine in its absolute discretion. The Net Asset Value per Unit is calculated by dividing the Net Asset Value of the Fund by the number of Units on issue as at the close of market on the relevant calculation date, or such other times and dates as Aquasia may determine in its absolute discretion.

The Net Asset Value of the Fund is calculated as the value of the assets in the Fund less the value of any liabilities.

The Fund's assets are valued at market value determined by Aquasia with reference to independent pricing sources. Assets whose values are not directly quoted are valued by reference to comparable assets and similar transactions in the market. If Aquasia considers that the value determined by reference to independent pricing sources is not reflective of where an asset could be sold on the market, the asset will be valued at Aquasia's assessment of its value, which may include use of model-based pricing.

Valuations are reviewed at least monthly by the Investment Committee and on an annual basis by the Fund's auditors.

## Distributions

Distributions may comprise income and/or capital. Investors will receive distributions in respect of their Units, based on their proportionate holding of Units at the end of each distribution period.

The distribution period will be each quarter, or such other period as Aquasia may determine in its absolute discretion. Distributions will ordinarily be paid within 30 days after the end of the relevant distribution period.

Investors may elect to have their distributions paid in cash or, subject to the discretion of Aquasia, reinvested in Units.

## Redemption of Units

Aquasia will generally allow investors to redeem Units on the last Business Day of each month provided that a redemption request is provided 10 Business Days before the relevant redemption date. Payment of redemption proceeds will generally be made within 30 days of the redemption date but if Aquasia considers it to be appropriate it may delay payment for up to 60 days.

Redemptions will be paid in accordance with the Fund's Constitution and the redemption proceeds will be based on the Net Asset Value of the Fund as at the close of market on the last Business Day of each month following the receipt of the redemption request, divided by the number of Units on issue as at that time and date, minus Sell Spread (currently 0.20% of the Net Asset Value per Unit).

Redemption proceeds will consist of an amount representing the redemption price plus an amount representing distributable income. Investors will be advised of the breakdown of such amounts at a later date.

Aquasia has the discretion to refuse, delay or scale back redemptions if the Fund does not have sufficient liquidity to meet redemption requests at the relevant time or Aquasia is unable to liquidate investments in circumstances where the position of the remaining Fund investors would not be disadvantaged.

Aquasia may determine, in its absolute discretion, that certain market conditions are adverse (**Adverse Market Conditions**). Aquasia has currently determined Adverse Market Conditions will include (without limitation):

- Where the S&P ASX200 has declined by more than 12.50% in the previous six months.
- Where in Aquasia's opinion there has been a serious dislocation in credit and fixed-income markets.

During Adverse Market Conditions, Aquasia has the discretion to cap redemptions at 20% (or such other percentage as it may determine in its absolute discretion, which may be zero) of the Net Asset Value of the Fund per month.

If Aquasia exercises its discretion to scale back or cap redemptions then any reduction of redemption amounts will be applied pro-rata to all redemption requests received in that month. The unsatisfied amount of any redemption requests will not be carried over to the next month.

## Reporting

Investors in the Fund will receive regular reports, including:

- Confirmations of their initial investment, subsequent investments and redemptions.
- Distribution statements
- Annual tax statements providing details of their share of the Fund's net income and identifying the taxation components of their distributions as required to complete Australian taxation returns.

Unit holders and potential investors may obtain copies of audited financial statements and/or details of the underlying investments or current Unit prices for the Fund by contacting Aquasia.

## In-Specie Transactions

Aquasia does not currently intend to permit in-specie applications and redemptions but may in its absolute discretion accept an in-specie application for Units and satisfy redemption requests by in-specie transfer of Fund assets.

# Fees and Expenses

## Management Fee

Aquasia as Manager, Trustee and Investment Manager charges a management fee for overseeing the operations of the Fund and providing access to the Fund's underlying investments (**Management Fee**).

The Management Fee is 1% p.a. (excl GST), accrued daily, calculated monthly and payable on the last Business Day of each month based on the Net Asset Value of the Fund before the recovery of expenses. The Management Fee is payable out of the assets of the Fund. Aquasia may at its discretion pay from its Management Fee a rebate of part of the fee to certain Unitholders.

## Fund Expenses & Transaction Costs

Aquasia is entitled to be reimbursed for administering the Fund and certain out-of-pocket expenses it incurs in managing and administering the Fund (together **Fund Expenses**). Out-of-pocket expenses include third party fees e.g. audit fees, fund accounting, unit registry, communication expenses with respect to investor services e.g. printing and postage and preparation of tax returns and the amortisation of certain upfront expenses including the legal cost of producing this IM and the Fund's Constitution.

Aquasia's reimbursement for Fund Expenses (**Expense Recovery**) is currently capped at 0.25% p.a. (excl GST) of the value of the assets in the Fund. Expense Recovery is payable out of the assets of the Fund. However, Aquasia has a right to vary or remove the expense recovery but will give Unitholders 30 days notice of such variation.

There are transaction costs associated with the buying and selling of assets for the Fund (**Transaction Costs**). Transaction Costs include brokerage, clearing costs, due diligence and legal fees, buy/sell spreads in underlying investments, government taxes, duties and levies incurred when acquiring or disposing part or all of the Fund's underlying investments. These Transaction Costs are incurred and paid at the asset level.

## Abnormal Expenses

Aquasia may recover, from the assets of the Fund, abnormal expenses such as costs of Unitholder meetings, changes to the Constitution, defending or pursuing legal proceedings and other costs to the Fund which are not included in Fund Expenses (**Abnormal Expenses**) and therefore not subject to the Expense Recovery cap. Abnormal Expenses are not generally incurred during the day-to-day operation of the Fund and are not necessarily incurred in any given year. The Fund Expenses outlined above do not include any Abnormal Expenses. Aquasia may, in its sole discretion decide to recover these Abnormal Expenses from the Fund.

## Transaction Costs and Buy/Sell Spread

Transaction costs are incurred due to investors joining or leaving the Fund. In order to ensure that other Fund investors are not adversely affected, investors must pay a spread charge on joining or leaving the Fund. An applicant for Units must pay a buy spread charge (**Buy Spread**) and a Unitholder redeeming Units must pay a sell spread charge (**Sell Spread**).

The Buy Spread is currently 0.20% of the Net Asset Value per Unit and is incorporated into the Issue Price of a Unit. The Sell Spread is currently 0.20% of the Net Asset Value per Unit and is deducted from the redemption proceeds of a Unit.

The Buy Spread paid on acquisition of Units and Sell Spread in respect of redemption of Units is not subject to GST. The Buy Spread and Sell Spread amounts are not paid to Aquasia. The amounts are retained as part of the assets of the Fund to protect ongoing investors from the Transaction Costs on transaction activity driven by applications and redemptions.

The size of the Buy Spread and Sell Spread may, subject to law, be varied from time to time without notice, to ensure that non-transacting investors are not adversely impacted by applications for Units or redemptions of Units by other investors. For example, a different percentage may apply when Transaction Costs such as brokerage costs or the difference between the bid and offer prices for assets change. In stressed and dislocated market conditions, Transaction Costs may increase significantly.

In addition, Aquasia may at its discretion reduce the Buy Spread and Sell Spread in certain situations such as when there is a simultaneous purchase and redemption of Units of equivalent value by different investors, or in the event of in-specie applications or redemptions.

Reinvested distributions will not incur a Buy Spread.

## Performance Fee

With effect from 1 July 2017, the Trustee will be entitled to a performance fee out of the Fund's assets of 20% (plus GST) of the amount by which the Performance exceeds the Hurdle. The performance fee will be calculated monthly and paid at the end of each Performance Period.

The performance fee rate is applied to the amount by which the Performance exceeds the Hurdle and multiplied by the number of units on issue on the business day after the Starting Date.

If the Performance in a given month is less than the Hurdle then no performance fee is payable that month and no further performance fee is payable until the accumulated Performance exceeds the Hurdle.

Any performance fee payable to the Trustee will be paid out of the assets of the Fund and will not be a liability of an individual Unitholder.

**High Water Mark** means the Net Asset Value per Unit at the Starting Date.

**Hurdle** means the High Water Mark increased by the percentage increase in the Target Return over the Performance Period.

**Net Asset Value per Unit** means the Net Asset Value of the Fund divided by the total number of Units on issue.

**Performance** means the difference between:

- (a) the Net Asset Value per Unit at the end of a Performance Period, calculated after:
  - (i) adding back the value of any Distributions in respect of a Unit paid or payable during that period; and
  - (ii) deducting management fees and expenses, but before deduction of the performance fee; and
- (b) the Hurdle.

**Performance Period** means the period from the applicable Starting Date to the last day of the month for which the performance fee is being calculated.

**Starting Date** means, for the first Performance Period in which a performance fee is payable under the performance fee provision set out above, 30 June 2017 and, thereafter, the last day of the last Performance Period for which a performance fee was payable.

**Target Return** means the Bloomberg AusBond Bank Bill Index plus 3%.

For example, if Performance exceeds the Hurdle in month 1, then a performance fee is accrued and paid at the end of month 1. If the Performance is below the Hurdle in month 2, then no performance fee is paid. If, in month 3, the Performance exceeds the Hurdle but the Performance from the start of month 2 to the end of month 3 is still below the Hurdle then, again, no performance fee is paid.

If the Performance exceeds the Hurdle in month 4, and the Performance from the start of month 2 (i.e. the Starting Date) to the end of month 4 also out-performs the Hurdle, then a performance fee is accrued and paid based on the Performance from the start of month 2 to the end of month 4.

The Performance Fee may be substantial. Investors should discuss this with their financial adviser to understand the impact of the Performance Fee on their investment in the Fund.

## Adviser Fees

Investors may agree to pay a commission to their financial advisers who have referred them to invest in the Fund. Such adviser fees are charged by the financial adviser and are separate and additional to the fees charged by the Fund. Aquasia is not liable for the failure of an investor to pay such adviser fees.

## Commissions

The Fund does not currently pay any commission or other similar payments to financial advisers. However, it reserves the right to do so in the future.

## Differential fees

Aquasia may negotiate different fee arrangements with certain Unitholders. Aquasia is under no obligation to offer such terms to other investors.



## Additional Fund Information

### Legal Relationship with Investors

The Corporations Act, general law and the Constitution set out the rights and interests of investors in the Fund as Unitholders and also set out the rights, duties and obligations of Aquasia as the Trustee of the Fund.

### Constitution

The Fund is governed by its Constitution. The main provisions of the Constitution are summarised below. The Constitution is legally binding between Aquasia and each Unitholder. To the extent of any inconsistency between this IM and the Constitution, the provisions of the Constitution will prevail. Subject to the Corporations Act, Aquasia, as Trustee of the Fund, may amend the Constitution. A copy of the Constitution is available for inspection free of charge at the offices of Aquasia during normal business hours.

### Rights and Liabilities of Investors as Unitholders

Each Unit carries with it an equal beneficial interest in the Fund as a whole but not in any particular asset of the Fund. Fund income is only distributed to registered investors entitled to a distribution as at the last Business Day of the distribution period. Investors may not interfere with Aquasia's powers or exercise any rights in respect of any investment of the Fund. Under the Constitution, investors may:

- Transfer Units in the Fund with the consent of Aquasia.
- Requisition, attend and vote at meetings of the Fund.
- Share in the income and capital distributions of the Fund.
- Participate in the winding up of the Fund.

Generally, the Constitution limits an investor's liability to Aquasia as the Trustee of the Fund to the value of that investor's investment in the Fund.

However, no absolute assurance can be given due to the fact that this has not been tested in superior courts.

### Liability of Aquasia as the Trustee

Except in the case of its own actual fraud, gross negligence, or wilful default, Aquasia is not liable to any Unitholder for any loss or damage suffered in any way relating to the Fund and is in fact indemnified out of the Fund.

### Retirement and Removal of Aquasia as Trustee

Aquasia may be removed from the Fund in the circumstances set out in the Constitution and the Corporations Act, including where the Unitholders pass an extraordinary resolution to remove Aquasia as the Trustee. Aquasia may also retire voluntarily on not less than 14 days' notice to Unitholders.

### Termination of the Fund

Aquasia may terminate the Fund at any time by giving notice to Unitholders or in the circumstances provided in the Corporations Act, including pursuant to an extraordinary resolution passed by Unitholders. Where the Fund is terminated, Aquasia must sell all the assets of the Fund and distribute the net proceeds to Unitholders in proportion to the number of Units held.

### Changing Fees, Expense Recovery and Buy Spread/Sell Spread

In accordance with the Constitution Aquasia may change the amount of the Management Fee, Expense Recovery and Performance Fee in this IM (including increase fees and Expense Recovery cap up to the maximums set out in the Constitution (if any)) without the consent of investors on 30 days' advance notice.

In accordance with the Constitution and subject to law, Aquasia may vary the amount of recovery of Abnormal Expenses and Buy Spread and Sell Spread at any time without investor consent or notice.

### Administration of the Fund

Aquasia has engaged external service providers to undertake certain administrative functions for the Fund. With effect from May 2017, the registry function for the Fund has been undertaken by One Registry Services Pty Limited (ACN 141 757 360). Since 1 July 2017, Unity Fund Services Pty Limited (ACN 146 747 122) has undertaken accounting and record keeping services including determining the value of Fund assets, calculating performance fees and preparation of financial reports.

## Custodianship of the Fund

The custodian of the Fund is currently:

Sargon CT Pty Ltd (**Sargon CT**)

ACN 106 424 088  
Suite 19.03 Level 19,  
60 Castlereagh Street  
Sydney, NSW 2000

At inception of the Fund, Aquasia appointed Australian Executor Trustees Limited (**AET**) to hold the assets of the Fund. AET was one of Australia's largest and oldest licensed trustee companies. On 1 November 2018 the business of AET was sold to Sargon Capital Pty Ltd which is a servicer provider to the finance and funds management industry (including corporate trust and custody services). As part of the integration of AET's business the custody agreements between AET and its clients have been novated to Sargon CT which is a wholly owned subsidiary of Sargon Capital Pty Ltd. The custody agreement between Aquasia and AET was novated to Sargon CT on 19 September 2019.

The Trustee has appointed Sargon CT under a Custodian Agreement. The Custodian's role is to hold the assets in its name and act on the direction of the Trustee to effect cash and investment transactions. Sargon CT has no supervisory role in relation to the operation of the Fund and has no liability or responsibility to a unit holder for any act done or omission made in accordance with the Custodian Agreement. Sargon CT's role as Custodian is limited to holding the assets of the Fund.

Sargon CT has consented to be named in this IM as custodian of the Fund in the form and context in which it is named and has not withdrawn its consent as at the date of this IM. Sargon CT does not make, or purport to make, any statement that is included in this IM and there is no statement in this IM which is based on any statement by Sargon CT. To the maximum extent permitted by law, Sargon CT expressly disclaims and takes no responsibility for any part of this IM other than the references to its name. Sargon CT does not guarantee the repayment of capital or any particular rate of capital or income return.

Aquasia from time to time may use other custodians for some of the Fund's assets and has the right, in its absolute discretion, to appoint other custodians. Engaging a custodian is subject to an onboarding process which includes a review of the legal documentation and operational considerations and is subject to periodic review by the Investment Committee.

## Application Monies held in a Trust Account

The money paid to acquire Units in the Fund may be held by Aquasia or its Custodian in a trust account for the benefit of the prospective investor until Aquasia issues Units to the prospective investor. This trust account will be a non-interest bearing account. Any income attributable to that application money will not be payable to the prospective investor.

## Cooling-Off Period

No cooling-off period applies with respect to investments in the Fund.

## Suspension of the Calculation of the Net Asset Value of the Fund

Aquasia may declare a temporary suspension of the determination of the Net Asset Value of the Fund on any calculation date in certain circumstances including where:

- The main market for a significant part of the Fund's assets is closed or trading is suspended or restricted.
- The price of a significant part of the Fund's assets cannot be reasonably, promptly or accurately ascertained.
- Aquasia considers it to be in the best interest of investors to do so.

## Rejection of Applications

It should be noted that, in accordance with the Constitution, the Corporations Act, or other anti-money laundering and counter terrorism financing obligations, or any other reason, Aquasia may reject applications for Units in its absolute discretion including where it is impractical to calculate the current Net Asset Value of the Fund, due to, for instance, the closure of a securities exchange or otherwise as required by law.

## Suspension of Redemptions

It should be noted that, in accordance with the Constitution, Corporations Act, or other anti-money laundering and counter terrorism financing obligations, Aquasia may suspend or freeze the redemption of Units in a number of circumstances including where it is impractical to calculate the current Net Asset Value of the Fund, due to, for instance, the closure of a securities exchange or otherwise required by law. If redemptions are suspended, redemption requests will be processed at the first following date on which the Net Asset Value of the Fund is next calculated after the lifting of the suspension.

## Compulsory Redemptions

If an investor's investment balance falls below the minimum balance of \$50,000 as a result of transactions the investor has made or attempts to make in respect of the investor's investment, Aquasia may in its absolute discretion close the investor's account and redeem the investor's Units without receiving a redemption request from the investor.

The Constitution also provides that Aquasia may also compulsorily redeem an investor's Units in its discretion. This could include, for example where if at any time the investor ceases to be a Wholesale Client or if the investor is otherwise prohibited by applicable law from holding Units.

## In-Specie Transactions

The Fund does not currently intend to permit in-specie applications or redemptions however Aquasia reserves the right to accept in-specie transfers for applications or in satisfaction of redemptions in its absolute discretion and will determine the value of the assets being transferred in its absolute discretion

If in-specie transfers are permitted, Aquasia may determine that some or all costs associated with the in-specie transfer will be paid by the investor.

## Transfers

Investors may only transfer their Units with the consent of Aquasia. Aquasia reserves the right to refuse any request to transfer any Units for any reason and will not approve proposed transferees who are not Wholesale Clients and who have not satisfied all applicable AML/CTF checks.

## Conflicts of interest

Aquasia, and its directors and officers, may from time to time act as directors, managers, investment managers, trustees, advisers, or otherwise be involved in business activities other than as the Manager, Trustee and Investment. The Fund may invest in assets in which Aquasia, and its directors and officers, may be involved in through its advisory or origination businesses. Aquasia and its directors and officers may also hold Units in the Fund. Accordingly, it is possible that there may be the potential for conflicts of interest to arise. Aquasia will endeavour to manage and resolve any such conflicts fairly and efficiently, enter into any transactions on an arm's-length basis and in accordance with its conflicts of interest policy.

## Dealing with Complaints

Aquasia has procedures in place for dealing with complaints. We will seek to acknowledge receipt of the investor's complaint in writing as soon as reasonably practicable and in any event within 14 days from receipt, and address the investor's complaint within 30 days. Investors with enquiries should contact Aquasia. Notification of any complaint should be made in writing and addressed to:

The Compliance Officer  
Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

## Privacy

Aquasia must comply with Australian privacy laws which regulate the collection, storage, quality, use and disclosure of personal information. Aquasia may collect personal information from investors to provide its products and services. In accordance with Aquasia's privacy policy (which is available free of charge by contacting us on 02 8061 4888 or [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au)), in most cases investors have rights to access their personal information. With regard to the Fund, Aquasia can use an investor's personal information to assess an investor's application for investment in the Fund and, if the application is accepted, to manage the Fund. Aquasia may disclose information to related entities, and anyone acting on Aquasia's behalf such as external service suppliers who supply administrative, financial or other services to assist Aquasia in providing financial services for the Fund, anyone the investor has authorised, or government departments or agencies, tax or revenue authorities



(including the US Internal Revenue Service). If we are not able to collect all the personal information we require, we may not be able to assess the investor's application or manage the investor's investment in the Fund.

We may transfer your personal information outside of Australia to other countries or disclose it to persons (including regulators) located outside of Australia. Further details are included in Aquasia's privacy policy. Please note that if an investor provides personal information to Aquasia about another person, the investor warrants that the investor is authorised by that person to do so and that the investor has informed that person of the information in this 'Privacy' sub-section.

Enquires regarding access to personal information must be in writing and addressed to:

The Compliance Officer  
Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

If you have any queries regarding our treatment of your privacy, please contact us on +61 2 8061 4888 or [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au).

## **FATCA**

The Foreign Account Tax Compliance Act (FATCA) was enacted by the US Congress in March 2010 as an attempt to capture income earned by US citizens in foreign jurisdictions. It imposes due diligence and reporting obligations on foreign financial institutions including the obligation to report to the ATO where Aquasia clients have a connection with the US. As part of the Application Form, applicants will be required to self-certify their FATCA status. Failure to do so may require us to withhold moneys from distributions.

## **Common Reporting Standard**

The OECD Common Reporting Standard (CRS) requires Australian banks and financial institutions to collect and report to the ATO various account relation information of investors who are foreign tax residents. In the Application Form you will be required to advise your country of residence for tax purposes and, if applicable, your tax identification number (TIN). Additional information may also be required before we can process your application.

## **Up-to-date Information**

Certain information in this IM may change from time to time. This includes but is not limited to potential changes which we have identified. Where we indicate to the investor that we will give notice of such changes, or where the updated information includes no materially adverse information, we will publish the updated information on our website [www.aquasia.com.au](http://www.aquasia.com.au). A copy of the updated information will be available free of charge upon request by contacting Aquasia.

## **Contacting Aquasia**

Attention: Colin McKeith

Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

Phone: +61 2 8061 4888

Email: [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au)

# Australian Taxation Implications

**Important advice:** Potential investors should obtain specific taxation advice referable to their own circumstances prior to making any investment decision.

The following information is a general tax summary of the key Australian income tax, stamp duty, and GST implications of investing in the Fund for individuals who are permanent Australian resident taxpayers (unless otherwise specified). These individuals are assumed to hold their Units in the Fund beneficially and on capital account and to be dealing at arm's length. Individuals holding Units in the Fund will receive a statement from the Fund following the end of a financial year detailing their share of the Fund's net income and identifying the taxation components of their distributions.

The information in this summary is general in nature. It does not constitute legal or tax advice and does not seek to address all of the tax issues that may be relevant to a prospective investor. Taxation issues are complex and tax laws, their interpretation and associated administrative practices may change over the term of an investment.

All references in this tax summary to legislative provisions are to provisions of the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 (together, the **Tax Act**), unless otherwise stated.

The tax treatment will vary according to individual circumstances and prospective investors are advised to seek their own independent tax advice in respect of their proposed investment in the Fund. All tax liabilities are, and will remain, the responsibility of each investor. Aquasia is not responsible for any taxation or penalties incurred by investors in any circumstance. Aquasia does not take into account the individual taxation position of Unitholders in the Fund and is not responsible for any taxation or penalties incurred by investors in any circumstances.

The taxation summary is based on the Australian taxation laws in force and the administrative practices of the Australian Taxation Office (the **ATO**) generally accepted as at the date of this IM. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retroactive effect.

## Tax Treatment of the fund

The Fund is an Australian resident trust for Australian tax purposes. Aquasia intends to limit the investment activities of the Fund to ensure that it is treated as a 'flow through' entity for the purposes of Australian tax, i.e. so that the provisions in the Tax Act that tax certain trusts in a manner similar to a company should not apply. Aquasia (as Trustee of the Fund) should not be liable for tax on the Fund's net (taxable) income (other than on behalf of non-resident investors - see "Australian Withholding Tax for New Zealand Resident Investors" below), on the basis that the Fund will have an amount of distributable income each income year and investors in the Fund that are not under a legal disability will be presently entitled to all of the income of the Fund each year. Instead, each investor will be required to include the investor's share of the net (taxable) income of the Fund in the investor's own assessable income in the financial year to which the distribution relates. This takes into account income that has been reinvested, or for which the entitlement has arisen but which has not yet been distributed to the investor. The tax treatment of trusts is currently subject to reform (see "Tax Reform" below).

## Net Income of the Fund

The net income of the Fund should take into account the following amounts:

- Any interest received on the investments of the Fund (determined in Australian Dollars).
- Any gains or losses on disposal or redemption of the investments of the Fund (including foreign exchange gains and losses).
- Any expenses or fees that the Fund incurs from time to time, including any interest on borrowings by the Fund.
- Any gains or losses or amounts received or paid on any hedge arrangements entered into by the Fund (including foreign exchange gains and losses).

## Taxation of Financial Arrangement (TOFA) Rules

The timing of recognition for tax purposes of these amounts will be affected by the application of Division 230 of the Tax Act (the **TOFA Rules**).

The Fund's investments, borrowings and hedge arrangements comprise financial arrangements that are subject to the TOFA Rules. Under these rules, any gains or losses that are sufficiently certain to arise from a financial arrangement before the time they are realised are brought to account on an accruals basis; that is, ahead of the time of realisation. Other gains and losses will be recognised only when realised.

Alternative elective methods are available under the TOFA Rules for bringing to account any gains or losses, however, these methods may not be applied. The TOFA provisions are currently subject to reform (see "Tax Reform" below).

### Discounts, Credits and Offsets

It is expected that any income or gains derived by the Fund will generally not carry any special tax attributes. That is, it is not expected that an investor would be entitled to any Capital Gains Tax (CGT) discount or franking credits in respect of distributions from the Fund. Some components of the Fund's income may be from sources outside Australia. Investors may be entitled to a foreign income tax offset where the Fund derives foreign income which has been subject to foreign income tax. There is a limit on the foreign income tax offset investors can claim, equal to the greater of \$1,000 and the Australian tax that would otherwise be payable on the double taxed amount and any other foreign-sourced assessable income.

### Trust Losses

If the Fund is in a tax loss position for a financial year, this loss cannot be distributed to the relevant investor (i.e. used by the investor to offset other income). However, such a loss may be able to be carried forward and deducted against future income of the Fund if the Fund meets certain requirements in relation to the continuity of persons with an interest in the Fund.

### Tax Treatment of Investors

The Constitution provides that investors are presently entitled to their proportionate share of trust income. Investors will receive an annual distribution statement which will identify the components of their distributions.

Distributions from the Fund may include non-assessable amounts including a return of capital. Such amounts are not taxable as income to investors when distributed but rather will reduce the cost base of their Units held in the Fund for the purposes of determining a CGT liability on the disposal of the Units.

An investment in Units in the Fund should generally not be regarded as a financial arrangement subject to the TOFA Rules.

### CGT Treatment

The cost base of investors' Units for CGT purposes will include, among other things, the amount paid to acquire the Units and any incidental costs. Where investors receive a distribution in excess of their share of the net income of the Fund, the amount of the distribution not included in their assessable income will reduce the cost base in their Units.

Investors may make a capital gain or capital loss when they dispose of their Units. As a general rule, where the proceeds on disposal of an investor's Units are greater than the cost base of those Units, the investor will make a capital gain. The amount of proceeds on disposal will depend on whether or not the investor redeems the Units or whether the investor disposes of the Units to a third party.

If investors redeem their Units, their total redemption proceeds may comprise both a distribution of income from the Fund and a payment for the redemption of their Units. In these circumstances, only the component relating to the payment for the redemption of Units will be relevant in determining whether or not investors make a capital gain or loss.

Where investors are able to assign or sell their Units to a third party, the total sale proceeds they receive for this assignment will be taken into account in determining whether they make a capital gain or capital loss.

Where CGT discount treatment applies, this means that only half (if the investor is an individual or trust) or two thirds (if the investor is a complying superannuation entity) of any capital gain on Units will be included in the investor's assessable income.

If investors make a capital loss on the disposal of their Units, this loss will only be able to be offset against capital gains investors derive from other sources and not against other ordinary income, like distributions or wages. However, capital losses can be carried forward and used to offset capital gains an investor may make in later years.

## Part IVA

The general anti-avoidance rules contained in Part IVA of the Tax Act are capable of broad application and should be carefully considered in relation to any investment decision. Part IVA is concerned with schemes where a party to the scheme has the sole or dominant purpose of obtaining a tax benefit (as defined in the Tax Act) for themselves or another party. For example, if it could be construed that an investor's commercial objectives of investing in the Fund might, if Units in the Fund had not been offered as investments, have been achieved through a different arrangement having a different tax outcome, then the possible application of Part IVA should be taken into account. Investors should consider obtaining expert taxation advice on the potential application of Part IVA.

## Tax File Numbers and Reporting

If an Australian investor does not provide a tax file number or claim a valid exemption (or in certain circumstances provide an Australian Business Number), Aquasia will be required to deduct tax from the investor's distributions at the highest marginal tax rate plus Medicare levy (currently 47%). Any tax file number an investor provides will be reported to the ATO by Aquasia in connection with the investor's investment.

## Australian Withholding Tax for New Zealand Resident Investors

Aquasia is required to withhold tax from distributions to investors who reside outside Australia, including investors resident in New Zealand. This may be imposed in the form of withholding tax or otherwise imposed on the trustee so as to reduce the amount of distributions made.

The rate of tax will depend on the type of income included in the distribution. Interest amounts will be subject to final withholding tax at 10%, unless an exemption applies. Any non-interest profits derived from investments of the Fund (which may include gains on sale of fixed-income securities, and income and profits on derivatives held by the Fund) will be subject to a final withholding tax at 15% for a New Zealand resident investor, provided the Fund is a "managed investment trust" or MIT, which requires compliance by the Fund with certain eligibility requirements.

Foreign-sourced (i.e. non-Australian sourced) income may be free from Australian tax when distributed to a New Zealand resident investor.

The Fund will monitor its MIT status. If the Fund is not eligible for MIT treatment, non-interest Australian-sourced profits may be subject to tax at higher rates, which may also require the filing of Australian tax returns by New Zealand resident investors.

## Stamp Duty

On the basis that the assets of the Fund will not comprise land or an interest in land (such as a lease), an investor should not have to pay stamp duty in any State or Territory.

Depending on the nature of the asset, stamp duty may be payable on the acquisition of the assets by the Fund. This will be a Transaction Cost for the Fund.

## GST

GST will not apply to the issue or redemption of Units. GST may apply to the fees charged to the Fund by Aquasia and some other expenses of the Fund (including on the acquisition of certain types of assets). The Fund may be entitled to a reduced input tax credit equal to between 55% and 75% of the GST paid in respect of certain expenses. GST may also apply to fees and commissions charged to investors by their financial adviser. Investors should obtain independent advice as to whether any input tax credits are available for any such GST, as it will depend on the investor's personal circumstances.

## Tax Reform

A new tax system has been enacted for certain managed investment trusts known as the “attribution managed investment trust” or AMIT regime. The AMIT regime is aimed at providing greater certainty and flexibility in relation to the tax treatment of managed investment trusts. The regime is elective and only available to trusts that comply with certain eligibility requirements. The introduction of the AMIT regime may also result in changes to the Australian Taxation Office’s administrative practices in relation to non-AMIT trusts.

Aquasia has not yet determined whether the Fund is eligible for, or will elect into, the AMIT regime. Investors should monitor developments in this area.

The taxation of trusts generally remains under review by the Federal Government although there is currently no guidance with respect to the timing of these further general reforms.

## Foreign Taxes

Foreign taxes may be imposed where the Fund’s investments or dealings have some connection with a foreign jurisdiction. Foreign laws are varied and can apply in uncertain ways.

If the Fund suffers any amount of Australian or foreign tax, or is required to withhold any amount in respect of Australian or foreign tax, neither the Responsible Entity nor the Fund will be required to compensate you for any such tax, and the effects of these amounts will be reflected in the returns of the Fund.

# New Zealand Taxation Implications

**Important advice: Potential investors should obtain specific taxation advice referable to their own circumstances prior to making any investment decision.**

The following information is a general tax summary of the key New Zealand income tax, stamp duty, and GST implications of investing in the Fund. Its scope is limited to investors dealing at arm's length, who are solely New Zealand resident taxpayers, who acquire investments of less than 10% in the Fund. It is not anticipated that the Fund will be under the control of New Zealand residents. It is assumed the investors do not hedge their investment into NZ\$. The Fund invests in A\$ securities and does not hedge its investments into NZ\$. Different rules may apply where these requirements are not met.

The information in this summary is general in nature. It does not constitute legal or tax advice and does not seek to address all of the tax issues that may be relevant to a prospective investor. Taxation issues, especially those relating to the taxation of foreign investments, are complex and tax laws, their interpretation and associated administrative practices, may change over the term of an investment. As tax treatment varies according to individual circumstances, prospective investors need to seek their own independent tax advice in respect of their proposed investment in the Fund. The application of the general anti-avoidance rules is capable of broad application and should be carefully considered in relation to any investment decision.

All tax liabilities are, and will remain, the responsibility of each investor. Aquasia is not responsible for any taxation or penalties incurred by investors in any circumstance. Aquasia does not take into account the individual taxation position of Unitholders in the Fund and is not responsible for any taxation or penalties incurred by investors in any circumstances.

All references in this tax summary to legislative provisions are to provisions of the Income Tax Act 2007 (the **Tax Act**), unless otherwise stated.

The taxation summary is based on the New Zealand taxation laws in force and the administrative practices of the Inland Revenue Department (the **IRD**) generally accepted as at the date of this Supplement. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retroactive effect.

## Status of Investments in the Fund

The Fund is a unit trust which is treated as an Australian resident for Australian tax purposes. The Fund will be investing in passive income in Australian debt securities and will not conduct an active business nor have a significant New Zealand business. Aquasia intends to limit the investment activities of the Fund to ensure that it is treated as a 'flow through' entity for the purposes of Australian tax. The Fund will not be listed on an Australian stock exchange.

An investment in Units in the Fund should generally not be regarded as a financial arrangement subject to the financial arrangement rules in the Tax Act.

Investments in Units in the Fund will therefore be classified as foreign investment fund (FIF) interests under the Tax Act.

## Tax Treatment of Investors

### *Attribution*

Subject to certain exclusions, a person's interest in a foreign investment fund gives rise to the attribution of FIF income or, in limited cases, a FIF loss for an income year.

One exclusion is that relating to units held in Australian resident unit trusts which satisfy the 70% minimum distribution test and which utilise a resident withholding tax proxy. In the present case it is not anticipated that this exclusion will apply.

Nor is it anticipated that the other exclusions from the attribution of FIF income will apply to non-individual investors covered by the scope of this supplement on the basis that an investor's interest in the Fund will not exceed the 10% thresholds, and units in the Fund will not be listed in Australia. Additional exemptions may be available for investors who are individuals and investors acquiring a 10% or greater interest. Independent advice will need to be sought by such investors.



### *Calculation methods*

Where income is attributed under the FIF rules, the FIF income may be calculated under one of several calculation methods, the most relevant being:

- the fair dividend rate method; and
- the cost method.

These methods are exclusive codes for the calculation of FIF income so that both dividends derived and gains on disposal are ignored. In spite of this, a tax credit may still be allowed for foreign withholding taxes on the dividends based on a formula to determine the amount of New Zealand income tax on a segment of foreign-sourced income. Currency conversion rules also apply. There is an accompanying prohibition on the deduction of amounts incurred in acquiring the attributing interest (unless the calculation method itself expressly provides for a deduction of the cost).

A common calculation method must be applied if the investor has more than one attributing interest in the same FIF unless the interests are different classes, or application of the common method is specifically restricted.

Generally, a calculation method, once adopted, must continue to be applied in later income years.

### *Fair Dividend Rate Method*

The fair dividend rate method is the starting point for the calculation of FIF income. Under this method, the FIF income is 5% of the market value of the interest at the start of the income year. There are special provisions for quick gains from purchases and sales made during the year. There are also periodic rules for investors who make investments for the benefit of other investors.

Adoption of this method is subject to being able to ascertain market value of the FIF without an independent valuation. It does not apply for interests in a FIF that are “non-ordinary shares” as defined in the Tax Act, which is not anticipated to be the case.

### *Cost Method*

Where the opening market value can be determined only by an independent valuation, the cost method may be used. Under this method, the FIF income is basically 5% of the cost of the investment with the cost being uplifted by 5% each year to allow for investment growth. Investors are required to use an independent valuation if the investment was not a FIF investment in the previous income year.

### *Other Methods for Individuals*

Individuals may elect into the “Comparative Value Method” (a market value based method) or the “Deemed Rate of Return Method” depending on their personal circumstances, in which case independent advice will need to be sought.

## **Stamp Duty**

New Zealand stamp duty will not apply.

## **GST**

New Zealand GST will not apply to the issue or redemption of Units.

## **Please Note:**

Aquasia is required to deduct Australian withholding tax from distributions to New Zealand resident investors. Please see “Australian Withholding Tax for New Zealand Investors” on page 23.

## Glossary

<b>Abnormal Expenses</b>	Out-of-pocket expenses incurred by Aquasia in managing and administering the Fund which are not generally incurred during day-to-day operation of the Fund and in any given year and which are not included in Fund Expenses.
<b>ABS</b>	Asset-backed securities; a type of debt based on a pool of underlying assets.
<b>ADI</b>	Authorised Deposit-Taking Institution.
<b>Adverse Market Condition</b>	Market conditions which Aquasia determines in its absolute discretion to be adverse and during the occurrence of which may impose a cap on redemptions.
<b>AML/CTF Law</b>	Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) and related rules as amended from time to time.
<b>Application Form</b>	An application form accompanying this IM.
<b>Aquasia</b>	Aquasia Pty Ltd ABN 20 136 522 051 AFSL 337872
<b>ASIC</b>	Australian Securities and Investments Commission or if it ceases to exist, any regulatory body or authority as then serves substantially the same objects.
<b>ATO</b>	Australian Tax Office.
<b>A\$ or AUD</b>	Australian Dollars.
<b>Bloomberg AusBond Bank Bill Index</b>	The index calculated daily by Bloomberg which tracks the performance of a portfolio of Australian bank bills. Formerly known as the UBS Australian Bank Bill Index, acquired by Bloomberg in April 2014.
<b>Business Day</b>	A day, that is not a Saturday, Sunday or public holiday, on which banks are open for business generally in Sydney.
<b>Buy Spread</b>	The charge incurred by investors in the Fund to cover the Transaction Costs associated with the buying and selling of assets for the Fund. The Buy Spread is currently 0.20% of the Net Asset Value per Unit.
<b>CGT</b>	Capital Gains Tax.



<b>Constitution</b>	The constitution of the Fund, being the trust deed dated 10 August 2011 as amended or replaced from time to time.
<b>Corporations Act</b>	Corporations Act 2001 (Cth), as amended from time to time.
<b>Custodian</b>	Sargon CT or such other custodian of the Fund as Aquasia may appoint from time to time.
<b>Expense Recovery</b>	Aquasia's reimbursement for Fund Expenses.
<b>Fund</b>	Aquasia Enhanced Credit Fund.
<b>Fund Expenses</b>	Has the same meaning as defined on page 15.
<b>GST</b>	Goods and Services Tax. GST has the meaning given in the GST Law.
<b>GST Law</b>	Has the meaning given in A New Tax System (Goods and Services Tax) Act 1999 (Cth).
<b>High Water Mark</b>	Has the meaning as defined on page 16.
<b>Hurdle</b>	Has the meaning as defined on page 16.
<b>Hybrid Securities</b>	Subordinated debt which combines debt and equity characteristics.
<b>IM</b>	This information memorandum dated February 2020.
<b>Investment Committee</b>	The investment committee for the Fund who are responsible for overseeing the activities of the Fund from an investment, operation and compliance perspective and who will set the Fund's ongoing strategy. The current members of the investment committee are set out on pages 4-6.
<b>Investment Grade</b>	Credit rating of at least BBB- by Standard & Poor's or Baa3 by Moody's, or if neither agency has a rating, a rating of at least BBB- from Fitch. If a particular security is unrated but there is a rating for the same issuer at the same (or lower) seniority, that rating will be imputed to the security.
<b>Investment Manager</b>	Aquasia Pty Ltd.
<b>Issue Price</b>	The price at which Units are issued to investors and calculated as described on page 13.
<b>JPY</b>	Japanese Yen
<b>Management Fee</b>	Has the same meaning defined on page 15.
<b>Manager</b>	Aquasia Pty Ltd.
<b>Net Asset Value of the Fund</b>	FundNet asset value of the Fund, as determined in accordance with the Constitution.
<b>NZ\$ or NZD</b>	New Zealand Dollars
<b>New Zealand Law or NZ Law</b>	Financial Conduct Act 2013 NZ.

<b>Other Foreign Currencies</b>	The currency of any country or countries except the currency of New Zealand and the currency of Australia.
<b>Performance Fee</b>	Has the meaning as defined on page 16.
<b>Performance Period</b>	Has the meaning as defined on page 16.
<b>Privacy Act</b>	Privacy Act 1988 (Cth) as amended from time to time.
<b>RITC</b>	RITC Reduced Input Tax Credit as defined in the A New Tax System (Goods and Services Tax) Act 1999 (Cth) as amended from time to time.
<b>RMBS</b>	Residential Mortgage Backed Securities; a type of asset-backed security where the underlying assets are residential mortgages.
<b>Sell Spread</b>	The charge incurred by Unitholders upon the redemption of Units to cover the Transaction Costs associated with the buying and selling of assets for the Fund. The Sell Spread is currently 0.20% of the Net Asset Value per Unit.
<b>Subordinated Debt</b>	A bond or loan that ranks below senior debt but ahead of equity.
<b>Target Return</b>	Bloomberg AusBond Bank Bill Index plus 3%. Aquasia may replace the benchmark index with another similar index should the existing index become redundant or inappropriate.
<b>Tax Act</b>	Together, the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997, unless otherwise stated.
<b>TOFA Rules</b>	Division 230 of the Tax Act.
<b>Transaction Costs</b>	Costs associated with the buying and selling of assets for the Fund.
<b>Trustee</b>	Aquasia Pty Ltd.
<b>Unit</b>	Unit of the Fund
<b>Unitholder</b>	The person(s) named in the Aquasia Enhanced Credit Fund register of unitholders as holder of a Unit.
<b>USD</b>	United States Dollars
<b>Wholesale Clients</b>	Persons who qualify as 'wholesale clients' for the purposes of Section 761G of the Corporations Act 2001 (Cth) or as "wholesale investors" under the Financial Conduct Act 2013 NZ.

## Notes

# Directory

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