



**AUSTRALIAN LEADERS FUND LIMITED**  
ACN 106 845 970

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## **Restructure Booklet**

Scheme with the Watermark Absolute Return Fund (ARSN 631 094 534)

**The Independent Directors unanimously recommend that you**

### **VOTE IN FAVOUR**

**of the Scheme and the Capital Reduction and Early Termination Fee Resolutions, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the transaction is in the best interests of shareholders.**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THE DOCUMENT IN ITS ENTIRETY BEFORE YOU DECIDE WHETHER TO VOTE IN FAVOUR OF THE SCHEME. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.**

If, after reading this Booklet, you have any questions about the Scheme, please call the Shareholder Information Line on 1300 737 760 (in Australia) +61 2 9290 9600 (International) Monday to Friday between 9.00am and 5.00pm (Sydney time). If you have questions regarding the number of ALF Shares you hold or how to vote, please contact the Registry on 1300 737 760 (in Australia) +61 2 9290 9600 (International) Monday to Friday between 9.00am and 5.00pm (Sydney time).

**IMPORTANT – If the Scheme is approved, after the Implementation Date, the Responsible Entity must verify the identity of each ALF Shareholder who received units in the Watermark Fund under the Scheme. To ensure your units are not subject to restrictions post implementation, complete the KYC Information Form provided with this Booklet**

If you have recently sold all of your ALF Shares, please disregard this document.

**Investment Manager:**

**Legal Adviser:**

**Responsible Entity for the  
Watermark Fund:**



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## AN OVERVIEW OF THE SCHEME

### 1.1. THE SCHEME

Australian Leaders Fund Limited (ACN 106 845 970) (**ALF**) and Equity Trustees Limited (**Responsible Entity**) have agreed to effect a restructure of ALF by way of scheme of arrangement under Part 5.1 of the Corporations Act between ALF and ALF Shareholders (**Scheme**).

#### (a) Overview

1. The transaction will involve the following on the Implementation Date:
  - ALF paying a fully franked cash Dividend of not less than 3 cents on each ALF Share held on the Record Date;
  - the ALF Assets being transferred to the Watermark Absolute Return Fund (ARSN 631 094 534) (**Watermark Fund**) and ALF being issued as consideration a new class of units in the Watermark Fund (**New Units**), equal to 1 New Unit for every ALF Share on issue on the Record Date (**Scheme Share**);
  - ALF reduce its capital by an in specie distribution of all New Units as Scheme Consideration in accordance with the Scheme and all Scheme Shares will be cancelled;
  - the current investment management agreement between ALF and its investment manager Watermark Funds Management Pty Limited (ACN 106 302 505) (**Watermark Funds Management** or **Manager**) will be terminated with effect from the Implementation Date; and
  - ALF becoming a wholly owned subsidiary of Watermark Funds Management.
2. The ALF Assets and the New Units issued to ALF and distributed to Scheme Participants will both have an aggregate value equal to ALF's post-tax NTA on the Implementation Date calculated after payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any).
3. The Retention Amount does not form part of the ALF Assets and is required to be retained by ALF to satisfy the costs of winding up ALF that have not yet incurred as at the Implementation Date and franking deficit tax attributable to the Dividend amount (if any).
4. In preparation for the Scheme, Watermark Funds Management (as the Manager of ALF) has liquidated the majority of investments within ALF's portfolio (**ALF Portfolio**) and as at the date of this Booklet, the ALF Portfolio is predominately comprised of cash. The ALF Portfolio will remain predominately held in cash until the Implementation Date or termination of the Scheme Implementation Deed (whichever occurs first).

#### (b) Capital Reduction

1. On the Implementation Date, ALF will undertake the Capital Reduction by crediting each Scheme Participant with a pro rata entitlement to the Capital Reduction based on the number of Scheme Shares held (**Capital Reduction Entitlement**).
2. ALF will satisfy the Capital Reduction Entitlement in respect of each Scheme Participant via the in specie distribution of the New Units as the Scheme Consideration in accordance with the terms of the Scheme.
3. The Capital Reduction requires a separate ALF Shareholder approval and is a necessary step to give effect to the Scheme (in addition to the Scheme itself). The Capital Reduction will be put to ALF Shareholders at the Annual General Meeting (which immediately follows the Scheme Meeting).
4. The Capital Reduction requires approval under section 256C of the Corporations Act by way of ordinary resolution of ALF Shareholders.

(c) **Termination of ALF Management Agreement and 12 month fee holiday for New Units**

1. On implementation of the Scheme, the ALF Management Agreement will be terminated.
2. In consideration for agreeing to terminate the ALF Management Agreement (amongst other things), ALF will pay Watermark Funds Management (in its capacity as the Manager of ALF) a termination fee of \$2.5 million (**Early Termination Fee**). Payment of the Early Termination Fee is subject to ALF Shareholders approving the Early Termination Fee Resolution at the Annual General Meeting.
3. In light of the Early Termination Fee that Watermark Funds Management will be receiving for the termination of the ALF Management Agreement, the Responsible Entity and Watermark Funds Management (as manager of the Watermark Fund) have agreed that during the 12 month period after the Implementation Date, no management fees will be charged on the New Units distributed to ALF Shareholders under the Scheme. These fees will be waived and not simply deferred. See Section 3.5 of this Booklet for details.

**1.2. INDEPENDENT EXPERT AND INDEPENDENT DIRECTORS RECOMMENDATION**

1. The Independent Expert has concluded that the Scheme is in the best interests of ALF Shareholders, in the absence of a Superior Proposal.
2. The Independent Directors believe that, for the reasons set out in this Booklet, you should vote in favour of the Scheme Resolution and the Resolutions to be put to the Annual General Meeting.
3. In the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders, each Independent Director who holds or controls ALF Shares intends to vote (or procure the voting) of all their ALF Shares in favour of the Scheme Resolution at the Scheme Meeting and the Capital Reduction and Early Termination Fee Resolutions at the Annual General Meeting.

**1.3. WITHDRAWAL OF NEW UNITS**

1. As New Unitholders in the Watermark Fund, Scheme Participants will be able to apply to withdraw (redeem) some or all of the New Units that they received under the Scheme on a monthly basis in accordance with the Fund Constitution.
2. Each New Unit withdrawn in the 12 months following the Implementation Date (**Initial Investment Period**) will incur a withdrawal fee equal to the lower of 2 cents and 2% of the then current NAV per New Unit. The Responsible Entity has agreed to rebate the withdrawal fees to Watermark Funds Management (as the Manager of the Watermark Fund).
3. Normal transaction fees, such as the buy-sell spread (as detailed in the PDS) will still apply during and after the Initial Investment Period.

**1.4. FUTURE OF ALF**

1. Following the Implementation Date, ALF will be a wholly owned subsidiary of Watermark Funds Management who will hold one fully paid ordinary share in ALF.
2. As a part of the Scheme, ALF will retain sufficient cash to fund the Retention Amount and outstanding Transaction Costs (if any). See Sections 6.8 and 8.4 for details.
3. Following implementation of the Scheme, ALF's NTA will be equal to zero and ALF will have no operations.
4. Watermark Funds Management intends to apply to ASX to remove it from the official list of ASX. Watermark Funds Management then intends to convert ALF into a proprietary company. It is expected that ALF will then either be liquidated or de-registered.

## **IMPORTANT – RETURN YOUR KYC INFORMATION TO AVOID RESTRICTIONS BEING PLACED ON YOUR NEW UNITS IF THE SCHEME PROCEEDS**

### **Post implementation, the Responsible Entity will be required to verify the identity of New Unitholders**

If the Scheme is approved and implemented, ALF Shareholders will be issued New Units in the Watermark Fund. As the Watermark Fund is an unlisted managed investment scheme, Equity Trustees Limited, being the responsible entity of the Watermark Fund, be required to verify the identity of all ALF Shareholders who received New Units under the Scheme.

To do this, the Responsible Entity requires the necessary 'Know your client' (KYC) information required under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (**KYC information**) to be collected and verified in respect of each ALF Shareholder who receives New Units under the Scheme.

### **KYC Information is not a condition to the Scheme or distribution of New Units**

You do not need to provide your KYC Information to receive New Units under the Scheme.

If the Scheme is approved and implemented, New Units in the Watermark Fund will be distributed to eligible ALF Shareholders irrespective of whether or not the Responsible Entity has verified their identity.

### **WARNING –your New Units will be restricted unless KYC Information is provided**

Not providing the KYC Information and documentation necessary for the Responsible Entity to verify your identity will result in a 'holding lock' being placed on the New Units distributed to you under the Scheme. Your New Units will remain subject to this holding lock until such time as the Responsible Entity has verified your identity. See Section 9.3 for details.

### **Providing your KYC Information is easy**

The Responsible Entity has established an electronic KYC Information Form and online verification platform which facilitates the collection of KYC Information and simplifies the verification process.

To provide your KYC Information using this platform:

- STEP 1:** Visit [www.olivia123.com/warf/](http://www.olivia123.com/warf/)
- STEP 2:** Enter your Postcode (if within Australia) OR Country of Residence (if outside Australia)
- STEP 3:** Enter your HIN or SRN
- STEP 4:** Follow the prompts to provide the proof of ID required for your investor type. The Electronic Verification system will incorporate your data and conduct a background check through the White Pages, Electoral Roll and other databases. Verification is typically confirmed at after Step 4.
- STEP 5:** Investors that do not pass online verification will be prompted to provide copies of proof of identity documents either electronically or via post.

For ALF Shareholders who do not wish to use the electronic KYC Information Form, a paper version of the KYC Information Form can be downloaded at <https://wfunds.com.au/> or requested from Boardroom.



2 February 2021

Dear Fellow Shareholders,

On behalf of the board of Australian Leaders Fund Limited (**ALF**), I am pleased to present to you an opportunity to consider and vote on the scheme of arrangement outlined in this Booklet (**Scheme**). On 28th September 2020, we announced a proposal to implement a restructure of ALF that would see the assets of ALF transferred to an unlisted managed investment scheme - the Watermark Fund, with the same strategy as ALF but with the benefits of an unlisted vehicle.

The Scheme will allow those shareholders who chose to remain with the strategy an opportunity to do so but with liquidity at NAV where ALF shares have traded at a persistent discount.

As Australia's first listed hedge fund, ALF has comfortably outperformed its benchmark (the All Ordinaries Accumulation index) since listing back in 2004, but with significantly less market risk.

Following years of strong performance in Australian shares, ALF broadened its mandate in 2016 to include a larger exposure to international shares. The Manager was unable to replicate earlier success however and performance suffered. With this setback, the ALF's shares fell from a sizeable premium to a deep discount relative to underlying value (**NTA**).

While the Manager has pivoted back to refocus on the Australian market and is again adding value for shareholders, the discount has persisted notwithstanding a raft of capital management initiatives taken by the board of ALF. If implemented, the Scheme will permanently close the gap between heavily discounted ALF shares and their underlying value (less tax assets).

ALF is very different. It does not track the performance of the share market like most other share funds. ALF has at times delivered very high returns for shareholders, even in years when the market has fallen sharply. With few exceptions, portfolio hedging has protected ALF's capital at times when the market has fallen. This is a unique and valuable strategy that sets it apart.

If the Scheme proceeds, investors in the Watermark Fund will benefit from the best elements of ALF. Its ability to hedge market risks and protect investors' capital while delivering attractive returns but without the uncertainty of how the shares trade relative to NTA.

Watermark's Long/Short investment strategy is more relevant than ever in protecting capital at times of elevated risk. Shares today are very expensive on historic measures which makes them risky. Market commentators will have you believe there is further upside in shares given interest rates are close to zero. As low interest rates merely reflect a softer outlook for growth, this to us, is a specious argument. We would prefer to retain cautious settings, while delivering attractive returns through our stock selection process.

As a new unitholder in the Watermark Fund, you will benefit from a preferential fee structure, with lower management fees than comparable hedge funds. As ALF is a closed end fund, it seemed appropriate to have a discounted fee structure. With the Watermark Fund, we have retained this benefit, offering lower fees but in an open-ended scheme.

The operating expenses of the Watermark Fund are also expected to be lower and unlike ALF, after the Initial Investment Period (being the 12 month period from the Implementation Date), will be capped in the Watermark Fund, resulting in a lower management expense ratio (**MER**) for investors.

I encourage you to read the Booklet carefully and to vote at the Scheme meeting and Annual General Meeting.

If you have questions, please call the Shareholder Information Line on 1300 737 760 (in Australia) +61 2 9290 9600 (International), Monday to Friday between 9.00am and 5.00pm (Sydney time). Alternatively, contact your financial, legal, taxation or other professional adviser.

Yours Faithfully,

A handwritten signature in black ink, appearing to read 'J Braitling', with a stylized flourish at the end.

**Justin Braitling**

CIO, Watermark Funds Management Pty Limited



2 February 2021

Dear ALF Shareholders,

On behalf of the Independent Directors of Australian Leaders Fund Limited (**ALF**), I am pleased to present you with an opportunity to consider and vote on a proposal that allows you to restructure your current investment in ALF Shares into units in the Watermark Absolute Return Fund (ARSN 631 094 534) (**Watermark Fund**).

Under the proposed restructure, ALF Shareholders will exchange their ASX listed ALF Shares for a new class of units in the Watermark Fund (**New Units**), distributed in specie by ALF on a one-for-one basis.

The Watermark Fund is an existing unlisted managed investment scheme, formed in January 2019, and is an ASIC registered managed investment scheme. The proposed restructure is to be implemented by way of a scheme of arrangement between ALF and its shareholders (**Scheme**).

Watermark Funds Management Pty Limited is the investment manager of ALF and the Watermark Fund. The Watermark Fund pursues the same investment strategy to ALF.

The Watermark Fund is a Long/Short equity fund which seeks to provide positive absolute returns, in excess of the RBA cash rate (**Fund Benchmark**), with a focus on capital preservation (for further details see Section 7 and section 5 of the product disclosure statement issued by Equity Trustees Limited (ABN 46 004 031 298 AFSL 240975) in its capacity as the responsible entity of the Watermark Fund (**Responsible Entity**), which is Annexure F to this Booklet (**PDS**)).

Subject to the Scheme being implemented:

- the ALF Assets will be transferred to the Watermark Fund;
- ALF will pay a fully franked cash Dividend and undertake an equal capital reduction, returning to ALF Shareholders on an equal basis an amount equal to ALF's post-tax NTA on the Implementation Date after payment of the fully franked cash Dividend excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any), and cancelling all Scheme Shares after the Scheme is implemented;
- ALF Shareholders who participate in the Scheme will receive New Units, a new class of fully paid units in the Watermark Fund, at an exchange ratio of one New Unit for every one ALF Share held on the Record Date – no cash payment is required to be made for these New Units;
- the current investment management agreement between ALF and Watermark Funds Management will be terminated with effect from the Implementation Date; and
- as new unitholders in the Watermark Fund, ALF Shareholders may request the withdrawal of all or some of their New Units in accordance with the Fund Constitution (noting the Rebated Early Withdrawal Fee, discussed below, will be incurred in respect of New Units withdrawn within the 12 months from the Implementation Date ).

### **New Unit terms**

The New Units issued under the Scheme will form a new class of unit, which will be held by Scheme Participants only. As explained more fully in Section 3.5, for 12 months from the



#### Implementation Date (**Initial Investment Period**):

- No management fees will be charged by it on New Units distributed to ALF Shareholders under the Scheme. These fees will be waived and not simply deferred.
- A fee equal to the lower of 2 cents and 2% of the then current NAV per New Unit withdrawn (**Rebated Early Withdrawal Fee**) will be rebated by the Responsible Entity to Watermark Funds Management (in its capacity as manager of the Watermark Fund).

Except for the management fee holiday during the Initial Investment Period and the Rebated Early Withdrawal Fee on any New Units withdrawn within that same period, the rights and liabilities attaching to New Units and units currently on issue in the Watermark Fund will be the same. See Section 9 of this Booklet and the PDS at Annexure F for further details.

#### **Early Termination Fee and 12 month management fee waiver**

ALF and Watermark Funds Management (in its capacity as the Manager of ALF) have agreed under the Scheme Implementation Deed that, subject to the Scheme becoming Effective, the ALF Management Agreement will be terminated with effect from the Implementation Date.

It has been agreed that in consideration for the early termination of the ALF Management Agreement (i.e. prior to the end of its fixed term), ALF will pay to Watermark Funds Management a termination fee of \$2.5 million (**Early Termination Fee**). The fixed dollar amount of the Early Termination Fee was agreed through negotiation between ALF (represented by its Independent Board Committee) and Watermark Funds Management in its capacity as the Manager. The Early Termination Fee represents significantly less than management fees Watermark Funds Management (as the Manager of ALF) would be contractually entitled to receive if that agreement remained on foot for its full fixed term.

In light of the Early Termination Fee that the Manager will be receiving for the termination of the ALF Management Agreement, Watermark Funds Management (as manager of the Watermark Fund) agreed to the 12 month management fee holiday (discussed above) in respect of New Units distributed to ALF Shareholders under the Scheme.

Under the provisions of the Corporations Act regulating related party transactions (Chapter 2E), the payment by ALF of the Early Termination Fee will constitute the provision by ALF of a financial benefit to a related party. For the reasons explained in Section 3.6 it has been determined that the payment by ALF of the Early Termination Fee be made subject to ALF Shareholders approval. For this purpose, ALF Shareholders will be asked to consider and vote on the Early Termination Fee Resolution at the Annual General Meeting. No approval is sought in respect of the Rebated Early Withdrawal Fee arrangement between the Responsible Entity and the Manager.

The approval of the Early Termination Fee Resolution at the Annual General Meeting is a condition for the Scheme to proceed and ALF Shareholders receiving the benefit of the fully franked cash Dividend and, in their capacity as holders of New Units, the 12 month management fee holiday (discussed above). Similarly, the approval of the Scheme (and it becoming Effective) is also a condition to the termination of the ALF Management Agreement and ALF paying the Early Termination Fee to Watermark Funds Management.

This interdependency reflects the commercially integrated nature of the overall proposal (being the Scheme, the Capital Reduction, the management fee holiday, the fully franked cash Dividend, the termination of the ALF Management Agreement and cancellation of ALF Shares) that ALF Shareholders are being asked to consider and vote on.

#### **Advantages and disadvantages**

The Scheme is designed to deliver you, as an ALF Shareholder, the following advantages:

- The elimination of any premium or discount to NTA backing. ALF Shares have traded persistently at a discount to ALF's NTA in recent years. The price of New Units in the Watermark Fund are expected to reflect more closely the underlying value of the New Units.
- Allowing investors to withdraw their investment proximate to the prevailing NAV per

New Unit on a monthly basis. Once the Scheme has been implemented New Unitholders will have the ability to withdraw their investment each month (see the Watermark Fund PDS (section 7), which is Appendix F to this Booklet).

- Providing investors the option to retain an investment in an entity that employs Watermark Funds Management's Long/Short investment strategy, being the same strategy employed by ALF with the same risk and return characteristics as ALF, namely: returns that are uncorrelated with the broader share market; and the ability to protect capital using hedging strategies while targeting attractive returns over time. See Section 5 for details.
- Providing investors with an attractive management fee structure compared to other similar hedge fund strategies in the Australian market (noting that no management fees will be charged during the Initial Investment Period).

The disadvantages and reasons you may want to vote against the Scheme include:

- You believe that the Scheme is not in your best interests.
- There can be no guarantee given in respect of the future performance of the Watermark Fund.
- An unlisted investment vehicle may not suit some investors, who prefer to buy and sell securities on-market, on a daily basis.
- In respect of distributions that are made from the Watermark Fund, some investors may prefer a corporate structure which allows for the payment of franked dividends as opposed to distributions of a unit trust, which are taxed in the hands of unitholders.
- The tax consequences of the Scheme and the tax structure of the Watermark Fund may not suit your financial position.

See Section 3.3 of this Booklet for more information on the advantages and disadvantages of the Scheme.

### **Independent expert**

The Independent Expert has concluded that the Scheme is fair and reasonable and that the Scheme is in the best interests of ALF Shareholders, in the absence of a Superior Proposal.

The Independent Expert's Report is included in Annexure A; I encourage you to read it before voting on the Scheme.

### **Recommendation of the Independent Directors**

The Independent Directors believe that the advantages outlined above and more fully explained in Sections 3.3 and 3.4 support implementation of the Scheme and you should vote in favour of the Scheme and the Capital Reduction Resolution and the Early Termination Fee Resolution, in the absence of a Superior Proposal.

### **Conditions to the Scheme**

The Scheme is subject to a number of conditions, including Court and ALF Shareholder approval in respect of the Scheme Resolution, the Capital Reduction Resolution and Early Termination Fee Resolution.

The Scheme Conditions are summarised in Section 11.10 of this Booklet and set out in full in the Scheme Implementation Deed which is included at Annexure B of this Booklet.

### **What can ALF Shareholders expect to receive if the Scheme proceeds?**

If the Scheme is implemented, Scheme Participants will be entitled to receive:

- cash payment of a fully franked cash Dividend of not less than 3 cents per ALF Share;

- the Scheme Consideration, being 1 New Unit for each ALF Share held on the Record Date, distributed in specie by ALF subject to the operation of the Scheme provisions for the treatment of Ineligible Foreign Shareholders.

**Important – Return your KYC Information so your New Units are not placed in a holding lock post Implementation Date**

Scheme Participants do not need to provide KYC ('Know your Customer') Information in order to receive an in specie distribution of New Units, as the Scheme Consideration, from ALF on the Implementation Date. However, as the Watermark Fund is an unlisted managed investment scheme, the Responsible Entity will be required to verify the identity of ALF Shareholders in their capacity of New Unitholders after implementation of the Scheme.

Accordingly, Scheme Participants (excluding Ineligible Foreign Shareholders) are still encouraged to provide the necessary information required by law for the Responsible Entity to verify their identity (referred to as 'KYC Information' in this document) prior to the Implementation Date.

To facilitate the collection of KYC Information and simplify the verification process, the Responsible Entity has established an electronic KYC Information Form and online verification platform. To provide your KYC Information using this platform simply visit [www.olivia123.com/warf/](http://www.olivia123.com/warf/) and follow the prompts. ALF Shareholders will be able to access this website any time after the date of this Booklet. Not providing the KYC Information and documentation necessary for the Responsible Entity to verify your identity will impact your ability redeem your New Units after the Implementation Date. In addition, the Responsible Entity will not be able to issue you any new units in the Watermark Fund (including through distribution reinvestment) until it has verified your identity.

**Further Information**

Important details of the Scheme and the steps associated with its implementation are set out in the Booklet which you are urged to read carefully. If you have any questions please call the Shareholders Information Line on 1300 737 760 (in Australia) +61 2 9290 9600 (International) on Monday to Friday between 9.00am and 5.00pm (Sydney time). Alternatively, contact your financial, legal, taxation or other adviser.

**Scheme Meeting and Annual General Meeting**

Your vote is important and on behalf of the Independent Board Committee, I encourage you to read the Booklet and vote on this significant transaction.

Yours Sincerely,



John Abernethy  
Chair of the Independent Board Committee

## IMPORTANT NOTICES

### Reading this Booklet

This Booklet is important. You should carefully read this Booklet in its entirety before making a decision as to how to vote Resolutions to be considered at the Meetings. If you have any questions or require further information, please contact the Shareholder Information Line on 1300 737 760 (in Australia) +61 2 9290 9600 (International) on weekdays between 9.00am and 5.00pm (Sydney time). If you are in any doubt about anything in this Booklet, please contact your legal, financial or other professional adviser.

Capitalised terms used in this Booklet are defined in the Glossary of terms in Section 13.1. The Glossary of terms also sets out some rules of interpretation that apply to this Booklet in Section 13.2.

### Purpose of this Booklet

This Booklet sets out the effects of the Scheme, certain information required by law and all other information known to the Independent Directors which in their opinion is material to your decision to vote in favour of, or against, the resolutions at the Meetings to effect the Capital Reduction and the Scheme (other than information previously disclosed to ALF Shareholders) and includes:

- the Scheme Explanatory Statement, as required by Part 5.1 of the Corporations Act, in relation to the Scheme.
- a statement of all the information known to ALF that is material to ALF Shareholders in deciding how to vote on the Capital Reduction Resolution, as required by section 256C(4) of the Corporations Act; and
- the information prescribed by the Corporations Act and is material to the decision of ALF Shareholders whether or not to vote in favour of the Early Termination Fee Resolutions.

### Responsibility for information

Other than as set out below, this Booklet has been prepared by ALF and is the responsibility of ALF.

The Manager has provided and is responsible for the Watermark Information. ALF and its directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Watermark Information.

The Responsible Entity has provided and is responsible for the Responsible Entity Information. ALF and its directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Responsible Entity.

Pitcher Partners has reviewed the information regarding the Australian taxation implications of the Scheme for ALF Shareholders and takes responsibility for that information, contained in Section 10. Pitcher Partners does not assume any responsibility for the accuracy or completeness of the information contained in this Booklet other than the general Australian taxation information contained in Section 10.

Titan Partners Corporate Finance Pty Limited has prepared the Independent Expert's Report which is contained in Annexure A to this Booklet. Titan Partners

takes responsibility for that report. Titan Partners does not assume any responsibility for the accuracy or completeness of the information contained in this Booklet other than that contained in Annexure A.

Boardroom Pty Limited has had no involvement in the preparation of any part of this Booklet other than being named as the Registry. Boardroom has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Booklet.

### ASIC

A draft of this Booklet was provided to ASIC for the purpose of sections 218 and 411(2) of the Corporations Act.

A copy of this Booklet was lodged with ASIC in accordance with section 256C(5) of the Corporations Act and registered by ASIC pursuant to section 412(6) of the Corporations Act.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides the no objection statement, the statement will be produced to the Court at the time of the Second Court Date.

Neither ASIC nor any of its officers takes any responsibility for the contents of this Booklet.

### ASX

ALF is listed on ASX. ALF Shares will continue to be quoted on ASX if the Scheme does not become Effective.

A copy of this Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Booklet.

### Important notice associated with the Court order under subsection 411(1) of Corporations Act

A copy of this Booklet has been submitted to the Court to obtain an order of the Court approving the convening of the Scheme Meeting.

The fact that, under subsection 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has approved the Scheme Explanatory Statement required to accompany the notice of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how you should vote (on this matter, you must reach your own decision); or
- has prepared, or is responsible for the content of, the Scheme Explanatory Statement.

### Notice regarding Second Court Date and if an ALF Shareholder wishes to oppose the Scheme

The date of the Second Court Date to approve the Scheme is 16 March 2021. The hearing will be at the Federal Court of Australia at 184 Phillip St, Sydney NSW 2000.

Each ALF Shareholder has the right to appear and be heard at the Second Court Date and may oppose the

approval of the Scheme at the Second Court Date.

If you wish to oppose in this manner, you must file and serve on ALF a notice of appearance, in the prescribed form, together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on ALF at its address for service at least one day before the Second Court Date.

The address for service is:

Attention: Australia Leaders Fund  
C/ - Mertons  
Level 7, 330 Collins Street  
Melbourne VIC 3000

### **Investment decisions**

This Booklet does not take into account your individual investment objectives, financial situation or needs. The information in this Booklet should not be relied on as the sole basis for any investment decision. You should seek independent legal, financial, accounting and other professional advice before making any investment decision.

### **Forward looking statements**

Certain statements in this Booklet are about the future. You should be aware that there are a number of risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results or performance of ALF or the Watermark Fund, following implementation of the Scheme, to be materially different from the future conduct, results or performance expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Such risks, uncertainties, assumptions and other important factors include, among other things, the risks described in Section 5. Changes to future matters are both normal and to be expected.

None of ALF, the Responsible Entity or their respective directors, officers and advisers, nor any other person gives any assurance that the occurrence of the events expressed or implied in any forward-looking statements in this Booklet will actually occur.

The forward-looking statements in this Booklet reflect views held only as of the date of this Booklet. Subject to the Corporations Act and any other applicable laws or regulations, ALF will not update these statements other than with respect to information that they become aware of prior to the Scheme Meeting which is material to the making of a decision regarding whether or not to vote in favour of the Scheme Resolution.

### **Status of this Booklet**

This Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not have effect in relation to any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court in accordance with section 411(1) or (1A) of the Corporations Act.

ASIC Corporations (Compromises or Arrangements) Instrument 2015/358 provides that sections 1012B and 1012C of the Corporations Act do not have effect in relation to any offer of a financial product if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court in accordance with section 411(1) or (1A) of the Corporations Act.

### **Privacy and personal information**

ALF is required to collect personal information to implement the Scheme. The personal information may include your name, contact details and details of your holding, together with contact details of individuals appointed as proxies, representatives of bodies corporate or attorneys at the Scheme Meeting. The collection of some of this information is required or authorised by the Corporations Act.

If you are an individual, you have certain rights to access the personal information collected about you. You may contact the Registry if you wish to exercise those rights.

The information may be disclosed to ALF and its related bodies corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Scheme.

If the information outlined above is not collected, ALF may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively, or at all.

If you appoint an individual as your proxy, corporate representative or attorney to vote at the Scheme Meeting you should inform that individual of the matters outlined above.

### **Entitlement to inspect Share Register**

It is noted that all persons are entitled, under section 173 of the Corporations Act, to inspect and obtain a copy of the Share Register. This register contains personal information about you.

### **Notice to Ineligible Foreign Shareholders**

This Booklet has been prepared in compliance with the disclosure requirements of Australia and New Zealand which may be different to those in other jurisdictions.

This Booklet and the Scheme does not in any way constitute an offer of securities or a solicitation of an offer to purchase securities in any place in which, or to any person to whom, it would not be lawful to make such an offer or solicitation.

ALF Shareholders in jurisdictions outside Australia (including its external territories) and New Zealand should refer to Section 11.5 of this Booklet.

### **Date of this Booklet**

This Booklet is dated 2 February 2021.

## IMPORTANT DATES

| Event  | Indicative date   |
|--|---|
| <b>Voting entitlement record date</b><br>Time and date for determining eligibility to vote at the Meetings   | 7.00pm (Sydney time) on 6 March 2021  |
| <b>Proxy return date</b><br>The time and date by which Proxy Forms must be received  | 11.00am (Sydney time) on 6 March 2021   |
| <b>Scheme Meeting</b><br>Court ordered meeting to consider and vote on the Scheme Resolution   | 11.00am, 8 March 2021   |
| <b>Annual General Meeting</b><br>Shareholders will vote on the Capital Reduction Resolution and Early Termination Fee Resolution   | 11.30am or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later), 8 March 2021 |
| <i>If the Scheme is approved by ALF Shareholders and all other Conditions Precedent in connection with the Scheme are fulfilled or waived, the following key dates apply:</i>                                      |   |
| <b>Second Court Date</b>   | 16 March 2021   |
| <b>Effective Date</b><br>Lodgement by ALF with ASIC of the Court orders approving the Scheme   | 17 March 2021   |
| <b>Trading in ALF Shares on ASX is suspended</b><br>ALF will be suspended at close of trading on the Effective Date  | 7pm (Sydney time), 17 March 2021  |
| <b>Record Date</b><br>Time and date for determining entitlements to Scheme Consideration   | 7pm (Sydney time), 22 March 2021  |
| <b>Implementation Date</b><br>ALF pays the fully franked cash Dividend and Scheme is implemented including the ALF Assets are transferred to the Watermark Fund and the Scheme Consideration is distributed by ALF | 26 March 2021   |

*The dates and times set out above are indicative only and are subject to the Court approval process, ASIC approval and any other regulatory approvals required. Any changes to the above timetable will be announced to ASX and available on its website, [www.asx.com.au](http://www.asx.com.au).*

## AN OVERVIEW OF THE SCHEME

### 1.1. THE SCHEME

Australian Leaders Fund Limited (ACN 106 845 970) (**ALF**) and Equity Trustees Limited (**Responsible Entity**) have agreed to effect a restructure of ALF by way of scheme of arrangement under Part 5.1 of the Corporations Act between ALF and ALF Shareholders (**Scheme**).

#### (a) Overview

1. The transaction will involve the following on the Implementation Date:
  - ALF paying a fully franked cash Dividend of not less than 3 cents on each ALF Share held on the Record Date;
  - the ALF Assets being transferred to the Watermark Absolute Return Fund (ARSN 631 094 534) (**Watermark Fund**) and ALF being issued as consideration a new class of units in the Watermark Fund (**New Units**), equal to 1 New Unit for every ALF Share on issue on the Record Date (**Scheme Share**);
  - ALF reduce its capital by an in specie distribution of all New Units as Scheme Consideration in accordance with the Scheme and all Scheme Shares will be cancelled;
  - the current investment management agreement between ALF and its investment manager Watermark Funds Management Pty Limited (ACN 106 302 505) (**Watermark Funds Management** or **Manager**) will be terminated with effect from the Implementation Date; and
  - ALF becoming a wholly owned subsidiary of Watermark Funds Management.
2. The ALF Assets and the New Units issued to ALF and distributed to Scheme Participants will both have an aggregate value equal to ALF's post-tax NTA on the Implementation Date calculated after payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any).
3. The Retention Amount does not form part of the ALF Assets and is required to be retained by ALF to satisfy the costs of winding up ALF that have not yet been incurred as at the Implementation Date and franking deficit tax attributable to the Dividend amount (if any).
4. In preparation for the Scheme, Watermark Funds Management (as the Manager of ALF) has liquidated the majority of investments within ALF's portfolio (**ALF Portfolio**) and as at the date of this Booklet, the ALF Portfolio is predominately comprised of cash. The ALF Portfolio will remain predominately held in cash until the Implementation Date or termination of the Scheme Implementation Deed (whatever occurs first).

#### (b) Capital Reduction

1. On the Implementation Date, ALF will undertake the Capital Reduction by crediting each Scheme Participant with a pro rata entitlement to the Capital Reduction based on the number of Scheme Shares held (**Capital Reduction Entitlement**).
2. ALF will satisfy the Capital Reduction Entitlement in respect of each Scheme Participant via the in specie distribution of the New Units as the Scheme Consideration in accordance with the terms of the Scheme.
3. The Capital Reduction requires a separate ALF Shareholder approval and is a necessary step to give effect to the Scheme (in addition to the Scheme itself). The Capital Reduction will be put to ALF Shareholders at the Annual General Meeting (which immediately follows the Scheme Meeting).
4. The Capital Reduction requires approval under section 256C of the Corporations Act by way of ordinary resolution of ALF Shareholders.

strategy employed by ALF with the same risk and return characteristics as ALF, namely: returns that are uncorrelated with the broader share market; and the ability to protect capital using hedging strategies while targeting attractive returns over time.

- Providing investors with an attractive management fee structure compared to other similar hedge fund strategies in the Australian market (noting that no management fees will be charged during the Initial Investment Period).

An alternative transaction structure considered by the Independent Directors included a liquidation of the ALF Portfolio and voluntary liquidation of ALF.

While both a voluntary liquidation and the Scheme involved a disposal of ALF Shares (from an Australian tax perspective) and required the liquidation of the ALF Portfolio, an ALF Shareholder approved voluntary liquidation was considered more expensive for ALF Shareholders. There was also a high risk of the Manager claiming for losses suffered as a result of the ALF Management Agreement being terminated when it still has approximately 8 years remaining on its fixed term.

For the reasons explained in Section 3.6 Mr Justin Baitling and Mr Geoff Wilson AO, being Directors, have each elected not to make a recommendation to ALF Shareholders on the Scheme.

## **1.2. INDEPENDENT EXPERT'S REPORT**

ALF engaged Titan Partners Corporate Finance Pty Limited as the Independent Expert to provide an Independent Expert's Report assessing the merits of the Scheme for ALF Shareholders.

The Independent Expert's Report is included in this Booklet at Annexure A. In the opinion of the Independent Expert, the Scheme is in the best interests of ALF Shareholders.

## **1.3. INDEPENDENT DIRECTORS' RECOMMENDATION AND VOTING INTENTIONS**

After considering the information available to them, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders, the Independent Directors unanimously recommend that you vote in favour of the Scheme, Capital Reduction and Early Termination Fee Resolutions.

Subject to that same qualification, each Independent Director intends to vote all ALF Shares they own or control at the time in favour of the Scheme Resolution (at the Scheme Meeting) and in favour of the Capital Reduction and Early Termination Fee Resolution (at the Annual General) Meeting.

In forming this view, the Independent Directors considered:

- the Scheme conditions, including the inter-dependent nature of the Resolutions, and the requirement for each Resolution to be approved in order for the Scheme to proceed;
- the expected advantages and potential disadvantages set out in Section 3.3 of this Booklet;
- the risk factors associated with the Scheme set out in Section 5; and
- the opinion of the Independent Expert, whose report is included in Annexure A.



#### **1.4. INTENTION OF OTHER DIRECTORS**

Justin Braitling is the sole Director and beneficial owner of Watermark Funds Management Pty Ltd. Under an Investment Services Agreement, Watermark Funds Management Pty Limited pays 25% of all management and performance fees received from ALF to Boutique Asset Management, a company 80% owned by entities associated with Mr Geoff Wilson AO.

Due to their personal interests, Mr Justin Braitling nor Mr Geoff Wilson AO do not make any recommendation on how ALF Shareholders should vote at the Meetings.

Whilst not making a recommendation, Mr Justin Braitling intends to vote (or procure the voting of) all his ALF Shares in favour of the Scheme Resolution (at the Scheme Meeting) and the Capital Reduction Resolution (at the Annual General Meeting).

Mr Geoff Wilson AO has not indicated how he will vote on either the Scheme Resolution or the Capital Reduction Resolution.

Mr Justin Braitling and Mr Geoff Wilson AO will not vote in respect of the Early Termination Fee Resolution. For further information regarding voting restrictions at the Meetings see Sections 3.6 and 4.6 and Annexures D and E.

#### **1.5. SCHEME CONSIDERATION**

If the Scheme is implemented, ALF Shareholders will be entitled to 1 New Unit for every ALF Share they hold on the Record Date, which is currently expected to be 7.00pm (Sydney time) on 22 March 2021. The New Units are described further in Section 9 and the PDS.

If all necessary approvals and conditions for the Scheme are satisfied or waived (as applicable), it is proposed that the Scheme will be implemented on the Implementation Date (currently proposed to be 26 March 2021).

The Scheme will apply to and bind all persons registered as ALF Shareholders as at the Record Date (currently proposed to be 7.00pm on 22 March 2021). These persons are referred to in the Scheme and in this Booklet as Scheme Participants.

Importantly, the Scheme provides that Scheme Participants will not have their ALF Shares cancelled pursuant to the Capital Reduction on the Implementation Date until the Responsible Entity procures:

- each Scheme Participant entitled to receive New Units, is entered in the Watermark Fund's register of members as the holder of those New Units (each holding the same number of New Units as Scheme Shares); and
- the name of the Nominee is entered in the Watermark Fund's register of members as the holder of New Units that Scheme Participants who are Ineligible Foreign Shareholders would be entitled to receive by for the provision of the Scheme.

Only once these steps have occurred will ALF complete the Capital Reduction and cancel the Scheme Shares.

The Responsible Entity has executed a Deed Poll in favour of all Scheme Participants and ALF under which, subject to the Scheme becoming Effective, the Responsible Entity undertakes to do all things contemplated of it in accordance with the Scheme (a copy of the Deed Poll is set out in Schedule 3 of the Scheme Implementation Deed, which is reproduced in Annexure B to this Booklet).

If you are a Scheme Participant who is an Ineligible Foreign Shareholder, the Nominee will be transferred your entitlement to New Units. See Section 11.5 for details.

## **1.6. IMPLEMENTATION OF THE SCHEME**

### **(a) Scheme Implementation Deed**

ALF, Watermark Funds Management and the Responsible Entity entered into the Scheme Implementation Deed on 22 December 2020. A copy of the Scheme Implementation Deed is at Annexure B.

The Scheme Implementation Deed can be terminated by either party in various circumstances. Further information regarding the termination of the Scheme Implementation Deed is set out in Section 11.14 of this Booklet.

At the date of this Booklet, ALF, Watermark Funds Management and the Responsible Entity are not aware of any reason to terminate the Scheme Implementation Deed.

### **(b) Scheme Conditions and status**

Implementation of the Scheme is subject to the satisfaction or waiver of the Scheme Conditions summarised in Section 11.10 of this Booklet and set out in clause 3 of the Scheme Implementation Deed.

As at the date of this Booklet, ALF, Watermark Funds Management and the Responsible Entity are not aware of any circumstances which would cause the Scheme Conditions not to be satisfied or (if applicable) waived. An update of the status of the Scheme Conditions will be provided at the Meetings.

### **(c) End date**

If the Scheme Resolution is approved by ALF Shareholders at the Scheme Meeting, the Scheme may still not be implemented if all the Scheme Conditions are not satisfied or waived (in accordance with the Scheme Implementation Deed). The Scheme Conditions include ALF Shareholders approving the Capital Reduction and the Early Termination Fee Resolutions at the Annual General Meeting.

The inter-dependency of the Scheme Resolution, the Capital Reduction and the Early Termination Fee Resolutions is consistent with the Scheme, the termination of the ALF Management Agreement and the waiver of Fund management fees on New Units during the Initial Investment Period being an integrated proposal that ALF Shareholders are being asked to consider.

If the Scheme has not become Effective on or before 30 June 2021 or such later date as ALF, Watermark Funds Management and the Responsible Entity may agree in writing, the Scheme will lapse and be of no further force and effect.

If this occurs, no Scheme Consideration will be paid and ALF will not undertake the Capital Reduction or pay the fully franked cash Dividend or the Early Termination Fee.

### **(d) KYC Information**

Scheme Participants do not need to provide KYC Information in order to receive the Scheme Consideration on the Implementation Date.

However, Scheme Participants (excluding Ineligible Foreign Shareholders, discussed below) are however encouraged to complete the KYC Information form (including providing the relevant documents required) and provide their KYC Information as soon as possible.

Not providing the KYC Information and documentation necessary for the Responsible Entity to verify your identity will impact your ability redeem your New Units after the Implementation Date. In addition, the Responsible Entity will not be able to issue you any New Units (including through distribution reinvestment) until it has verified your identity.

Scheme Participants that do not wish to provide the KYC Information, can sell their ALF Shares on market prior to the Scheme becoming Effective.

The Responsible Entity has established an electronic KYC Information Form and online verification platform to facilitate the collection of KYC Information and simplify the verification process. Simply visit [www.olivia123.com/warf/](http://www.olivia123.com/warf/) and follow the prompts to provide your KYC Information.

### **1.7. INELIGIBLE FOREIGN SHAREHOLDERS**

Ineligible Foreign Shareholders will not receive New Units under the Scheme. Instead, the New Units that would otherwise have been transferred to them will be transferred by ALF to the Nominee on the Implementation Date (**Ineligible Units**). ALF will procure that:

- as soon as reasonably practicable and in any event, not more than 5 Business Days after the Implementation Date, the Nominee requests to withdraw the Ineligible Units; and
- promptly after the withdrawal of each Ineligible Unit, the Nominee pays the withdrawal proceeds to the relevant Ineligible Foreign Shareholder(s) either:
  - electronic funds transfer to a bank account as noted on the ALF Share Register on the Record Date; or
  - a cheque drawn on an Australian bank and sent by pre-paid ordinary post (or if each Ineligible Foreign Shareholder's registered address is outside Australia, by pre-paid airmail post).

Full details of this process are contained in the Scheme at Annexure C and Section 11.5.

Payment of the withdrawal proceeds satisfies all payment obligations in respect of the Scheme Consideration in respect of their Scheme Shares being cash equal to the amount each Ineligible Foreign Shareholder would have received had they:

- received New Units under the Scheme; and
- applied to withdraw those New Units and received the withdrawal price in cash in respect of those New Units.

ALF, the Responsible Entity and the Nominee give no assurance as to the price to be received for the withdrawal of the Ineligible Units. The withdrawal of the Ineligible Units by the Nominee will be at the risk of the Ineligible Foreign Shareholders.

ALF have determined that the votes cast on the Scheme by ALF Shareholders whose registered address is outside Australia (including its external territories) and New Zealand will be 'tagged' for the purposes of identification at the Scheme Meeting. If the Scheme is approved by the requisite majorities at the Scheme Meeting, the 'tagged' votes by ALF Shareholders whose registered address is outside Australia (including its external territories) and New Zealand will be drawn to the Court's attention at the Second Court Date.

### **1.8. QUESTIONS**

If you have any questions or would like any further information about the Scheme, please call the Shareholder Information Line between 9.00am and 5.00pm Monday to Friday, Sydney time on 1300 737 760 (in Australia) +61 2 9290 9600 (International).

## 2. QUESTIONS AND ANSWERS

This section answers some basic questions that you may have about the Scheme. The information is a summary only and should only be read in conjunction with the entire Booklet.

You should read the entire Booklet before deciding how to vote on at the Meetings.

| Question   | Answer   |
|--|--|
| <b>Questions about the Scheme</b>  |  |
| <b>What is the Scheme?</b>   | <p>On 3 September 2020 ALF announced a proposal that allows ALF Shareholders to restructure their current investment in ALF Shares into New Units in the Watermark Fund.</p> <p>Under the proposed Scheme, ALF Shareholders will exchange their ASX listed ALF Shares for an issue of a new class of units in the Watermark Fund, on a one-for-one basis.</p> <p>The Watermark Fund is an existing unlisted managed investment scheme, formed in or around January 2019, and is an ASIC registered managed investment scheme.</p> <p>Watermark Funds Management Pty Limited is the investment manager of ALF and the Watermark Fund.</p> <p>The Watermark Fund pursues the same Long/Short investment strategy as ALF.</p> <p>The Watermark Fund seeks to provide positive absolute returns, in excess of the RBA cash rate (<b>Fund Benchmark</b>), with a focus on capital preservation.</p> <p>For details, see Section 7 of this Booklet and section 5 of the product disclosure statement in respect of the New Units issued by Equity Trustees Limited (ABN 46 004 031 298 AFSL 240975) in its capacity as the responsible entity of the Watermark Fund (<b>Responsible Entity</b>), which is Annexure F to this Booklet (<b>PDS</b>).</p>   |
| <b>What is the Capital Reduction, the Dividend and the Distribution?</b> | <p>Subject to the Scheme becoming Effective, ALF will undertake a Capital Reduction and pay a fully franked cash Dividend. The Capital Reduction is a return of capital to Scheme Participants on their ALF Shares (that will apply equally across all Scheme Shares).</p> <p>The cash Dividend will be fully franked and for an amount determined by the Board not less than 3 cents which will be announced to the market prior to the Scheme Meeting (that will also apply equally across all Scheme Shares). The fully franked Dividend will be paid in cash on the Implementation Date. If the Scheme does not become Effective, no fully franked cash Dividend will be paid.</p> <p>The Capital Reduction will not be paid in cash. Instead, the Capital Reduction amount will be applied on behalf of Scheme Participants as consideration for the issuance of New Units under the Scheme.</p> <p>The Scheme is conditional on the Capital Reduction Resolution being approved by a majority of ALF Shareholders at the Annual General Meeting.</p> <p>As part of the Capital Reduction the Scheme Shares will be cancelled.</p> <p>More information in relation to the Capital Reduction is set out in Section 3.6(b) of this Booklet.</p> |

| Question   | Answer   |
|--|--|
| <b>What will ALF Shareholders receive if the Scheme is implemented?</b>                    | <p>If the Scheme is implemented, Scheme Participants (other than Ineligible Foreign Shareholders) will be entitled to 1 New Unit for every 1 ALF Share they hold on the Record Date. If the Scheme is implemented, Scheme Participants will also be paid a fully franked cash Dividend of not less than 3 cents per ALF Share held on the Record Date.</p> <p>Ineligible Foreign Shareholders' entitlements under the Scheme will be dealt with by the Nominee receiving and withdrawing their New Units in accordance with the process set out in Section 11.5.</p> |
| <b>What proportion of the Scheme Consideration is a dividend and will it be franked?</b>   | <p>The Directors will determine to pay subject to the Scheme becoming Effective a fully franked cash Dividend of not less than 3 cents per ALF Share.</p> <p>The Directors expect to announce the fully franked cash Dividend amount on the ASX prior to the Scheme Meeting.</p> <p>The fully franked Dividend will be paid in cash on the Implementation Date if the Scheme becomes Effective.</p> <p>Please see Section 10 for further information regarding the Australian tax consequences of the declaration of the fully franked cash Dividend.</p>            |
| <b>What will happen to ALF?</b>  | <p>Under the Scheme, the Manager will be issued a single fully paid ordinary share in ALF. Accordingly, following the Implementation Date, the Manager will be the sole shareholder of ALF.</p> <p>Following the Implementation Date, the Manager intends to apply to ASX to remove it from the official list of ASX. The Manager then intends to convert ALF into a proprietary limited company. It is expected that ALF will then either be liquidated or de-registered.</p>   |
| <b>Who are the Independent Directors?</b>  | <p>The Independent Directors are John Abernethy and Julian Gosse.</p>  |
| <b>What do the Independent Directors recommend?</b>  | <p>The Independent Directors believe the Scheme, the Capital Reduction and Early Termination Fee are in the best interests of ALF Shareholders in the absence of a Superior Proposal.</p> <p>The Independent Directors recommend that ALF Shareholders vote in favour of the Scheme Resolution, the Capital Reduction Resolution and the Early Termination Fee Resolution in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders.</p>                       |
| <b>How do the Independent Directors intend to vote in respect of their own ALF Shares?</b> | <p>In the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders, the Independent Directors intend to vote (or procure the voting of) all ALF Shares they own or control in favour of the Scheme Resolution at the Scheme Meeting and the Capital Reduction Resolution and the Early Termination Fee Resolution (at the Annual General Meeting).</p>   |
| <b>What is the opinion of the Independent Expert?</b>                                      | <p>The Independent Expert has considered the merits of the Scheme and has concluded that the Scheme is in the best interests of ALF Shareholders in the absence of a Superior Proposal.</p> <p>The Independent Expert's Report is set out in full in Annexure A.</p>   |

| Question   | Answer   |
|--|--|
| <b>How will the Scheme be implemented?</b>                   | <p>To implement the Scheme, ALF will undertake a Capital Reduction and return ALF's capital to Scheme Participants (equally across all Scheme Shares). The Capital Reduction will not be paid in cash to Scheme Participants. Instead, the Capital Reduction amount will be applied on behalf of Scheme Participants as consideration for the issuance of New Units under the Scheme.</p> <p>The Scheme is subject to (amongst other things), the approval of ALF Shareholders and the approval of the Court.</p> <p>ALF Shareholders will be asked to consider and vote on the Scheme Resolution at the Meeting and the Capital Reduction and payment of the Early Termination Fee to the Manager at the Annual General Meeting.</p> <p>If all the Scheme Conditions are satisfied or waived (in accordance with the Scheme Implementation Deed), the Scheme will constitute a binding arrangement between ALF and each Scheme Participant.</p> <p>If this occurs, Scheme Participants will be entitled to receive the Scheme Consideration and ALF will cancel all Scheme Shares and take other steps required on the Implementation Date. Scheme Consideration which Ineligible Foreign Shareholders are entitled to will be issued to the Nominee and withdrawn.</p> <p>Further details on how the Scheme will be implemented are set out in Section 11.</p> |
| <b>Who is entitled to participate in the Scheme?</b>         | <p>Only persons registered as holders of ALF Shares on the Record Date may participate in, and will be bound by, the Scheme.</p> <p>It is expected that the Record Date will be 22 March 2021. This date may change. Any changes will be announced to ASX and notified on the ASX announcements platform.</p>  |
| <b>When will the Scheme become Effective?</b>                | <p>Subject to satisfaction or waiver (in accordance with the Scheme Implementation Deed) of the conditions to the Scheme, it is expected that the Scheme will become Effective on 17 March 2021.</p> <p>The New Units will not be issued until the Implementation Date. It is expected that the Implementation Date will be 26 March 2021 (unless extended).</p>   |
| <b>What are the reasons to vote in favour of the Scheme?</b> | <p>The reasons to vote in favour of the Scheme are considered in Section 3.3 of this Booklet and include:</p> <ol style="list-style-type: none"> <li>1. the Independent Directors believe that the proposed Scheme is in the best interests of ALF Shareholders, in the absence of a superior proposal;</li> <li>2. the Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of ALF Shareholders;</li> <li>3. Scheme Participants will be able to manage their investment by requesting the withdrawal of their New Units on monthly withdrawal dates;</li> <li>4. Scheme Participants will be able to exit their investment at NAV;</li> <li>5. ALF Shareholders will be able to remain invested with Watermark Funds Management;</li> <li>6. the costs of operating as an unlisted registered managed</li> </ol>  |

| Question   | Answer  |
|--|---|
|  | <p>investment scheme are expected to be lower than operating as a listed investment company on ASX;</p> <p>7. the price of New Units will no longer be subject directly to exogenous market forces such as momentum and broader investor sentiment applicable to the share market generally; and</p> <p>8. no Superior Proposal has been received by ALF.</p>   |
| <b>What are the reasons you may want to vote against the Scheme?</b> | <p>The reasons you may want to vote against the Scheme are considered in Section 3.4 of this Booklet and include:</p> <ol style="list-style-type: none"> <li>1. you may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion and believe that the Scheme is not in your best interests;</li> <li>2. risks of the Scheme for Scheme Participants;</li> <li>3. you may prefer to hold listed investments;</li> <li>4. you may prefer a company structure to a trust structure; and</li> <li>5. the tax consequence of the Scheme may not suit your financial position.</li> </ol>  |
| <b>What are the risks of the Scheme?</b>                             | <p>The risks associated with the Scheme include but are not limited to:</p> <ul style="list-style-type: none"> <li>• The risk that one or all of the Scheme Resolution, Capital Reduction or Early Termination Fee Resolution are not approved by ALF Shareholders, in which case the Scheme cannot proceed and ALF will have borne costs associated with a failed Scheme and failed to address the issues identified by the Board. See Section 6.8 of this Booklet for details of the Transaction Costs.</li> <li>• The Scheme may deliver cost savings in operating synergies following its implementation. However, it is possible that the integration of ALF and the Watermark Fund will be more difficult or take more time than currently anticipated, and could delay the realisation of synergy benefits expected to result from the Scheme.</li> </ul> <p>Further detail about these risks is set out in Section 5 of the Booklet.</p>  |
| <b>What will be the effect of the Scheme on Scheme Participants?</b> | <p>If the Scheme being is implemented:</p> <ul style="list-style-type: none"> <li>• ALF will pay on the Implementation Date a fully franked cash Dividend of not less than 3 cents per ALF Share held on the Record Date. All Scheme Participants will be entitled to receive the fully franked cash Dividend;</li> <li>• ALF will transfer the ALF Assets to the Watermark Fund;</li> <li>• ALF will undertake an equal Capital Reduction, returning an amount equal to ALF's post-tax NTA on the Implementation Date after payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any), and cancelling all Scheme Shares after the Scheme is implemented;</li> <li>• ALF Shareholders who participate in the Scheme will receive New Units, a new class of fully paid Units in the Watermark Fund (Class B units), at an exchange ratio of one new Unit for every one ALF Share held on the Record Date – no cash payment is required to be made for the transfer of these Units;</li> </ul> |

| Question   | Answer   |
|--|--|
|  | <ul style="list-style-type: none"> <li>the current investment management agreement between ALF and Watermark Funds Management will be terminated with effect from the Implementation Date; and</li> <li>as New Unitholders in the Watermark Fund, ALF Shareholders: <ul style="list-style-type: none"> <li>will benefit from no management fees being charged during the Initial Investment Period;</li> <li>may request the withdrawal of all or some of their New Units in accordance with the Fund Constitution after the Implementation Date (noting the Rebated Early Withdrawal Fee will be incurred in respect of New Units withdrawn within the Initial Investment Period).</li> </ul> </li> </ul> |
| <b>What are the options for ALF Shareholders?</b>  | <p>ALF Shareholders may:</p> <ul style="list-style-type: none"> <li>vote in favour of the Scheme Resolution at the Scheme Meeting and the Capital Reduction and Early Termination Fee Resolution at the Annual General Meeting;</li> <li>vote against any or all of the Scheme Resolution at the Scheme Meeting or the Capital Reduction and/or Early Termination Fee Resolution at the Annual General Meeting;</li> <li>sell their ALF Shares before trading is suspended at close of trading on the Effective Date (expected to be 17 March 2021); or</li> <li>do nothing.</li> </ul>  |
| <b>What approvals are required at the Scheme Meeting?</b>                                | <p>Votes in favour of the Scheme Resolution must be received from ALF Shareholders as follows:</p> <ul style="list-style-type: none"> <li>a majority in number (more than 50%) of ALF Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or by corporate representative); and</li> <li>at least 75% of the total number of votes cast on the Scheme Resolution (whether in person, by proxy, by attorney or by corporate representative).</li> </ul>  |
| <b>What approvals relevant to the Scheme are required at the Annual General Meeting?</b> | <p>The Early Termination Fee Resolution and the Capital Reduction Resolution will be considered at the Annual General Meeting.</p> <p>These Resolution each require the approval of a simple majority (more than 50%) of the votes cast by ALF Shareholders present and voting at the Annual General Meeting, whether in person, by proxy or attorney or, in the case of a corporate ALF Shareholder or proxy, by a representative.</p>  |
| <b>What are the key conditions to be satisfied before the Scheme can proceed?</b>        | <p>The key conditions that must be satisfied in order for the Scheme to proceed (<b>Scheme Conditions</b>) are:</p> <ul style="list-style-type: none"> <li>ALF Shareholders approving the Scheme Resolution at the Scheme Meeting;</li> <li>ALF Shareholders approving the Capital Reduction Resolution and Early Termination Fee Resolution at the Annual General Meeting; and</li> <li>the Court approving the Scheme.</li> </ul> <p>These are not the only Scheme Conditions, which are set out in full in</p>  |



| Question   | Answer   |
|--|--|
|  | <p>clause 3 of the Scheme Implementation Deed (which is reproduced in Annexure B) and summarised in Section 11.10 of this Booklet.</p> <p>The status of the Scheme Conditions is discussed at Section 1.6(b) and 11.11 of this Booklet.</p>  |
| <b>Questions about Fund</b>  |  |
| <b>What is the Watermark Absolute Return Fund (ARSN 631 094 534)?</b>  | The Watermark Fund is a registered managed investment scheme, established in Victoria, Australia on 18 January 2019 and registered on 24 January 2019. Further information about Fund is set out in Sections 7 and 8 and in the PDS at Annexure F of this Booklet.   |
| <b>Who is the Responsible Entity of the Watermark Fund?</b>  | Equity Trustees Limited (ACN 004 031 298).   |
| <b>Who will manage the Watermark Fund following the completion of the Scheme?</b>  | The investment manager for the Watermark Fund is the same as ALF, Watermark Funds Management Pty Limited (ACN 106 302 505).  |
| <b>What are the intentions of the Manager in relation to the investments of the Watermark Fund after implementation of the Scheme?</b> | <p>Watermark Funds Management, in its capacity as manager of the Watermark Fund, in will invest the ALF Assets transferred to the Watermark Fund on the Implementation Date using the Watermark's Long/Short investment strategy.</p> <p>See section 5 of the PDS for further information regarding Watermark's Long/Short investment strategy.</p>  |
| <b>Questions about implementation of the Scheme</b>  |  |
| <b>Will I be required to pay broker fees or stamp duty?</b>  | You will not have to pay either brokerage or stamp duty if the Scheme is implemented.  |
| <b>Is KYC Information required to receive the New Units?</b>   | <p>No. However, Scheme Participants (excluding Ineligible Foreign Shareholders, discussed below) are however encouraged to complete the KYC Information Form (including providing the relevant documents required) and provide their KYC Information as soon as possible.</p> <p>Not providing the KYC Information and documentation necessary for the Responsible Entity to verify your identity will impact your ability redeem your New Units after the Implementation Date. In addition, the Responsible Entity will not be able to issue you any new units in the Watermark Fund (including through distribution reinvestment) until it has verified your identity.</p> <p>Scheme Participants that do not wish to provide the KYC Information, can sell their ALF Shares on market prior to the Scheme becoming Effective.</p> |

| Question  | Answer   |
|---|--|
| <b>When will I receive my New Units?</b>                                    | <p>Scheme Participants (other than Ineligible Foreign Shareholders) will be transferred New Units on the Implementation Date (currently expected to occur on 26 March 2021).</p> <p>If the Scheme becomes Effective, trading in ALF Shares on ASX will be suspended at close of trade on the Effective Date (currently expected to be 17 March 2021). These dates may change. Any change will be announced to ASX and notified on the ASX announcements platform.</p>  |
| <b>What is happening to my ALF Shares?</b>                                  | <p>All Scheme Shares will be cancelled as part of the Scheme pursuant to the Capital Reduction.</p> <p>Following completion of the Capital Reduction, the Manager will be issued a single fully paid ordinary share.</p>   |
| <b>Who is an Ineligible Foreign Shareholder?</b>                            | <p>Each ALF Shareholder whose address is on ALF's Share Register as at the Record Date in a place outside Australia, its external territories or New Zealand, unless ALF considers that it is lawful and not unduly onerous or impracticable for Scheme Participants to receive with New Units when the Scheme becomes Effective.</p>  |
| <b>What if I am an Ineligible Foreign Shareholder?</b>                      | <p>Ineligible Foreign Shareholders will not receive the New Units to which they would otherwise be entitled under the Scheme. Instead, those New Units will be transferred by ALF to the Nominee and withdrawn (redeemed) for cash.</p> <p>The Nominee will promptly after the withdrawal of each Ineligible Unit pay the withdrawal proceeds to the relevant Ineligible Foreign Shareholder(s) as described in Section 11.5, in full satisfaction of their right to the Capital Reduction and Scheme Consideration.</p> <p>For further information on the treatment of Ineligible Foreign Shareholders, please refer to Sections 1.7 and 11.5 of this Booklet.</p>  |
| <b>What are the tax implications of the Scheme for Scheme Participants?</b> | <p>The taxation implications of the Scheme will differ depending on the individual circumstances of each Scheme Participant.</p> <p>General information on the taxation effect of the Scheme, the Capital Reduction and fully franked cash Dividend on Scheme Participants who are residents of Australia for tax purposes is set out in Section 10. The information is expressed in general terms and does not constitute taxation advice in respect of the particular circumstances of any Scheme Participant.</p> <p>Your decision on how to vote on the Meetings should be made only after consultation with your financial, legal, taxation and other professional advisers based on your own investment objectives, financial situation, taxation position and particular needs.</p> |
| <b>Questions about voting</b>   |  |
| <b>Who is entitled to vote at the Scheme Meeting?</b>                       | <p>To be entitled to vote at the Scheme Meeting and Annual General Meeting, you will need to be registered as an ALF Shareholder at 7.00pm (Sydney time) on 6 March 2021.</p>  |
| <b>How will the Meetings be held?</b>                                       | <p>In response to the global COVID-19 pandemic and government restrictions on physical gatherings, the Meetings will be held as a virtual (online only) meeting. There will be no physical meetings where ALF Shareholders and proxies can attend in person.</p>   |

| Question   | Answer  |
|--|---|
| <b>When will the Scheme Meeting be held?</b>         | <p>The Scheme Meeting is scheduled to be held virtually at 11.00am on 8 March 2021.</p> <p>Refer to Section 4.7 and Annexure D for more details.</p>  |
| <b>When will the Annual General Meeting be held?</b> | <p>The Annual General Meeting is scheduled to be held virtually on 8 March 2021 at 11.30am (Sydney time) or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later).</p> <p>Refer to Section 4.7 and Annexure E for more details.</p>  |
| <b>How do I vote?</b>                                | <p><i>Vote by Proxy</i></p> <p>Accompanying this Booklet are personalised Proxy Forms.</p> <p>If you wish to vote but are not able to attend the Scheme Meeting, you should appoint a proxy by following the instructions on the Scheme Proxy Form</p> <p>If you wish to vote but are not able to attend the Annual General Meeting, you should appoint a proxy by following the instructions on the AGM Proxy Form.</p> <p>You do not need to complete any Proxy Form if you intend to vote virtually in person, by attorney or by representative at the Scheme Meeting and Annual General Meeting.</p> <p>In order to be valid, your proxy must be appointed by 11.00am (Sydney time) on 6 March 2021.</p> <p>If you intend to appoint your proxy by returning the completed Proxy Form by mail or fax, your Proxy Form must be received by the Registry before 11.00am (Sydney time) on 6 March 2021.</p> <p><i>Voting at the Meeting</i></p> <p>Attending the Scheme Meeting and Annual General Meeting virtually enables ALF Shareholders to view both the Scheme Meeting and Annual General Meeting live.</p> <p>ALF Shareholders are also able to ask text-based questions and cast votes in the real time poll, at the appropriate time. If ALF Shareholders attend either the Scheme Meeting (<a href="https://web.lumiagm.com/?fromUrl=356975937">https://web.lumiagm.com/?fromUrl=356975937</a>) or Annual General Meeting (<a href="https://web.lumiagm.com/352-380-901">https://web.lumiagm.com/352-380-901</a>) online and vote on any resolution by using the voting button in the <a href="https://www.votingonline.com.au/alfgm2021">https://www.votingonline.com.au/alfgm2021</a> (for the Scheme Meeting) or <a href="https://www.votingonline.com.au/alfagm2020">www.votingonline.com.au/alfagm2020</a> (for the Annual General Meeting) at the time the Chair calls a poll, any proxy vote previously lodged by the ALF Shareholder in respect of that resolution will be withdrawn.</p> <p>Refer to Section 4.7 and Annexure D and Annexure E for more details.</p> |
| <b>Is voting compulsory?</b>                         | <p>No, voting is not compulsory. However, your vote is important.</p> <p>If you cannot attend the Scheme Meeting or the Annual General Meeting, you should appoint a proxy.</p> <p>For further details regarding voting and appointing a proxy for the Scheme Meeting and Annual General Meeting, see Section 4.7, Annexure D and Annexure E of this Booklet.</p>   |

| Question   | Answer  |
|--|---|
| <b>What happens if I vote against the Resolutions at the Meetings?</b> | If the Scheme becomes Effective it will bind all ALF Shareholders, including those who voted against the Scheme Resolution, the Capital Reduction and/or Early Termination Fee Resolutions and those who do not vote.   |
| <b>Other information</b>   |   |
| <b>What other information is available?</b>                            | <p>This Booklet provides detailed information in relation to the Scheme, the Capital Reduction and the Early Termination Fee that all ALF Shareholders should read.</p> <p>Section 4.3 of this Booklet also contains details of other resolutions to be considered at the Annual General Meeting.</p> <p>If you have any questions or require further information, you can call the Shareholder Information Line on 1300 737 760 (in Australia) +61 2 9290 9600 (International) between 9.00am and 5.00pm Monday to Friday (Sydney time).</p> |

### 3. KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

This Section 3 identifies the key considerations relevant to your vote including the material advantages, disadvantages, and other relevant matters you should consider when deciding whether to vote in favour of the Scheme and each of the Scheme, Capital Reduction and Early Termination Fee Resolutions.

You should carefully consider the following advantages and disadvantages of the Scheme, as well as the other information contained in this Booklet including the risks in Section 5, in deciding whether or not to vote in favour of the Scheme Resolution, the Capital Reduction and Early Termination Fee Resolution.

#### 3.1. INDEPENDENT DIRECTORS' RECOMMENDATION

The Independent Directors unanimously believe that the advantages of the Scheme outweigh its disadvantages and risks.

In the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders, each Independent Director recommends that ALF Shareholders vote in favour of the Scheme and each Resolution to be put to the Meetings.

Each Independent Director who holds or controls ALF Shares intends to vote (or procure the voting) all of their ALF Shares in favour of the Scheme Resolution at the Scheme Meeting and the Early Termination Fee Resolution and the Capital Reduction Resolution at the Annual General Meeting.

Section 3.3 explains the reasons why the Independent Directors are making this recommendation.

#### 3.2. INDEPENDENT EXPERT'S REPORT

The Independent Directors have commissioned an Independent Expert to prepare a report on the Scheme. That report concludes that, in the view of the Independent Expert, the Scheme is fair and reasonable and is in the best interests of ALF Shareholders, in the absence of a superior proposal.

The report is contained in Annexure A.

#### 3.3. REASONS TO VOTE IN FAVOUR OF THE SCHEME

(a) **The Independent Directors believe that the proposed Scheme is in the best interests of ALF Shareholders, in the absence of a Superior Proposal**

The Independent Directors believe that the Scheme is in the best interests of ALF Shareholders:

- It will immediately close the gap between the ALF share price and ALF's NTA (less costs associated with the Scheme).
- It will provide an opportunity for ALF Shareholders to withdraw their investment close to the recoverable value of ALF's assets should they wish to exit their investment.
- It will ensure that Shareholders who wish to remain invested are moved to an investment vehicle with many of the same features as ALF, and in the knowledge that management fees and fund expenses will not be any higher than with ALF but without the challenges of dealing with Shares that trade at a discount.
- It represents a solution that, with the support of Shareholders and an independent expert, can be implemented in a timely fashion and at a reasonable cost to ALF.

(b) **The Independent Expert has concluded that the Scheme is fair and reasonable and therefore in the best interests of ALF Shareholders**

ALF appointed Titan Partners to prepare an Independent Expert's Report providing an opinion as to whether the Scheme is in the best interests of ALF Shareholders.

The Independent Expert concluded that the Scheme is fair and reasonable and therefore in the best interests of ALF Shareholders, in the absence of a Superior Proposal.

The reasons why the Independent Expert reached this conclusion are set out in the Independent Expert's Report, a copy of which is included in Annexure A.

ALF Shareholders should carefully review the Independent Expert's Report in its entirety.

(c) **Scheme Participants will be able to exit their investment at NAV**

For ALF Shareholders who desire liquidity at a price more closely approximate to underlying asset value, the Scheme provides a solution.

Subject to implementation of the Scheme, ALF Shareholders will have the ability to apply to withdraw the New Units that they hold in the Watermark Fund on a monthly basis at close to the prevailing NAV.

Liquidly is currently offered via the ASX. However, the selling price of ALF Shares on the ASX has been at a discount to NTA in recent years.

Liquidity in the Watermark Fund is provided via New Unitholders ability to withdraw their investment each month. Generally speaking, the withdrawal price at which New Unit are withdrawn is calculated in accordance with the Fund Constitution and based on the NAV per New Unit less an amount on account of the notional costs of realising assets to meet withdrawal requests plus applicable withdrawal and exit fees (if any).

In respect of New Units, these costs will include the Rebated Early Withdrawal Fee, discussed at Section 3.5.

Therefore, ALF Shareholders participating in the Scheme and receiving New Units in the Watermark Fund will have the ability to apply to withdraw (redeem) their New Units at a value equal or close to the NAV per New Unit.

(d) **Ability to remain invested with Watermark Funds Management**

ALF Shareholders participating in the Scheme and receiving New Units in the Watermark Fund will have the option to retain those New Units and thereby maintain their investment in a vehicle managed by Watermark Fund Management using Watermark's Long/Short investment strategy, which is the same as ALF's.

For ALF Shareholders who wish to remain invested with Watermark Funds Management and exposed to a Long/Short absolute return equity strategy, the Scheme provides this choice and flexibility.

Please refer to Sections 7, 8 and 9 for further information in relation to the Watermark Fund and, including its governance and management structure, Watermark's Long/Short investment strategy, the rights attaching to New Units, how those rights differ from the rights attached to ALF Shares and the risks associated with holding New Units.

(e) **Lower operating costs expected**

Scheme Participants who become investors in the Watermark Fund, will not be subjected to the costs associated with the operation of a listed investment company. These include, among

other costs and fees, ASX listing fees, Directors' fees, fees paid to the company secretary of ALF, and the costs associated with satisfying ALF's periodic financial reporting obligations to the ASX.

Scheme Participants who become New Unitholders, will benefit from an attractive management fee structure compared to other similar hedge fund strategies in the Australian market (noting that no management fees will be charged during the Initial Investment Period).

**(f) The withdrawal price of New Units will not be subject to exogenous market forces such as momentum and broader investor sentiment**

A central objective of Watermark's Long/Short investment strategy employed by ALF is to provide returns that are uncorrelated with the broader share market.

ALF was the first genuine 'hedge fund' strategy to be offered to Australian investors as a listed investment company. For many years it stood alone among a peer group of funds that offered more traditional long only investment strategies.

By virtue of its alternative approach, hedging its market exposure during periods where risks were elevated, and by leveraging the fund's exposure when risks are more contained, ALF has delivered strong results at times when other funds have struggled.

Watermark's Long/Short investment strategy is more relevant than ever in the current economic uncertainty. It worked to protect ALF's capital during the COVID-19 crash in February/March, even as the ALF Share price fell. However, the hedging and correlation benefits of Watermark's strategy which have protected ALF's capital on many occasions over the years has not stabilised ALF's Share price.

The Independent Directors consider that Watermark's Long/Short investment strategy would be better suited to an unlisted vehicle, whose price tracks the NAV of the units. This will also eliminate the risk investors cannot realise their investment at fair value, due to prolonged periods where there is an NTA discount.

As the Watermark Fund is an unlisted managed investment scheme, this ensures that exogenous market forces such as momentum and broader investor sentiment applicable to the share market generally does not act to dilute the correlation benefits that the Watermark Fund can offer.

**(g) No Superior Proposal has emerged**

As at the date of this Booklet, no Superior Proposal has been received by ALF.

The Independent Directors will keep you informed of any material developments between the date of this Booklet and the Meetings which may affect the Independent Directors' belief that the Scheme is in the best interests of ALF Shareholders.

Any announcements will be made on the ASX company announcements platform.

### **3.4. REASONS YOU MAY WANT TO VOTE AGAINST THE SCHEME**

The Independent Directors strongly believe that the reasons to support the Scheme and vote in favour of the Resolutions at the Meetings outweigh the reasons you may want to vote against the Scheme. Accordingly, each Independent Director recommends all ALF Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

However, the Independent Directors believe that ALF Shareholders should take into consideration these factors when deciding whether or not to vote in favour of the Scheme.

- (a) **You may disagree with the Independent Directors' recommendation and the Independent Expert's conclusion and believe that the Scheme is not in your best interests**

Notwithstanding the unanimous recommendation of the Independent Directors and the determination of the Independent Expert, you may believe that the Scheme is not in your best interests.

There is no obligation to follow the recommendation of the Independent Directors or to agree with the opinion of the Independent Expert.

- (b) **Risks of the Scheme**

There are a number of risks that may result from implementation of the Scheme. Further information about the risks is set out in Section 5 of this Booklet.

- (c) **You may prefer to hold listed investments**

As investors in a publicly listed company, some ALF Shareholders may prefer to hold securities listed on ASX in preference to holding units in an unlisted trust.

There may also be additional administrative and compliance requirements in managing an investment in a unit trust that do not apply to investors buying and selling shares on the market via a broker.

- (d) **You may prefer a company structure to a trust structure**

In respect of distributions that are made from the Watermark Fund, some investors may prefer a corporate structure which allows for the payment of franked dividends as opposed to distributions of a unit trust, which are taxed in the hands of unit holders.

- (e) **The tax consequence of the Scheme may not suit your financial position**

Implementation of the Scheme may trigger taxation consequence for ALF Shareholders. A general guide to the taxation implications of the Scheme is set out in Section 10.

This guide is expressed in general terms only and ALF Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

### **3.5. EARLY TERMINATION FEE AND 12 MONTH REBATED EARLY WITHDRAWAL FEE AND MANAGEMENT FEE WAIVER**

- (a) **Background**

As set out in Section 6.5, the current terms of the ALF Management Agreement provides that Watermark Funds Management (in its capacity as ALF's manager) is entitled to an initial fixed term of 25 years from February 2004 and affords ALF very limited termination rights.

In return for the performance of its duties as manager of ALF, Watermark Funds Management is entitled to a management fee equal to 1% p.a. (or to 0.0833% each month)(plus GST) of the value of the ALF gross assets (less any liabilities incurred or accrued in relation management or administration of the ALF Portfolio during that period) (**Management Fee**). The Management Fee is payable monthly in arrears and calculated on the last Business Day of each month.

In addition to this Management Fee, Watermark Funds Management may be eligible to receive performance fees (paid annually in arrears subject to ALF's performance).



As part of the agreed terms for proposing the Scheme, if the Scheme proceeds, the ALF Management Agreement will be terminated on the Implementation Date. Through negotiations between ALF (represented by its Independent Board Committee) and Watermark Funds Management in its capacity as the Manager, it has been agreed that ALF will pay to Watermark Funds Management a flat termination payment of \$2.5 million (**Early Termination Fee**).

The Early Termination Fee represents significantly less than what Watermark Funds Management as the Manager would be contractually entitled to receive if that agreement remained on foot for its full fixed term. In those circumstances, Watermark Funds Management in its capacity as the Manager would receive a further 8 years of Management Fees and subject to ALF's performance over that period could also be eligible to receive annual performance fees.

The Responsible Entity has determined that, for 12 months from the Implementation Date (**Initial Investment Period**):

- No management fees will be charged by it on New Units. These fees will be waived and not simply deferred.
- A fee equal to the lower of 2 cents and 2% of the then current NAV per New Unit withdrawn (**Rebated Early Withdrawal Fee**) will be rebated by the Responsible Entity to Watermark Funds Management (in its capacity as manager of the Watermark Fund).

After this Initial Investment Period, the standard management fees of 1.00% p.a. of the NAV will be payable in respect of the New Units. See section 9 of PDS (commencing at page 20), which is Annexure F to this Booklet.

In the Initial Investment Period, the Rebated Early Withdrawal Fee will be incurred in addition to normal transaction fees (such as the buy-sell spread) detailed in the PDS (section 9), which is Annexure F to this Booklet. The Rebated Early Withdrawal Fee will be paid by the withdrawing New Unitholder (in the withdrawal price) and rebated by the Responsible Entity to Watermark Funds Management (in its capacity as manager of the Watermark Fund).

It is important to note that the Initial Investment Period commences on the Implementation Date of the Scheme and ends 12 months after that date (expected to be on or around 1 March 2022).

Sections 3.5(b) and 3.5(c) distinguish the position on the Early Termination Fee and the Rebated Early Withdrawal Fee and the management fee waiver arrangements for those ALF Shareholders who (in their future new capacity as New Unitholders) remain invested in the Watermark Fund for the full 12 months following the Implementation Date and those who wish to exit before then (i.e. during the Initial Investment Period). Section 3.6 addresses the Shareholder approval requirements for the Early Termination Fee.

**(b) ALF Shareholders who remain invested in the Watermark Fund for at least 12 months following the Implementation Date**

For those ALF Shareholders who (in their future new capacity as New Unitholders) maintain their investment in the Watermark Fund for the full Initial Investment Period, the Early Termination Fee and the Rebated Early Withdrawal Fee rebate and management fee waiver is expected to deliver for them a fee neutral outcome compared to if the Scheme does not proceed (and the status quo is preserved).

**(c) ALF Shareholders who exit the Watermark Fund within 12 months of the Implementation Date**

ALF Shareholders who are Ineligible Foreign Shareholders (whose New Units will be withdrawn by the Nominee following Implementation see Section 11.5) or who elect to exit their investment in the Watermark Fund during the Initial Investment Period, will incur standard exit

fees and the Rebated Early Withdrawal Fee in respect of each New Unit withdrawn (although all management fees will be waived).

Viewed in isolation, without regard to the other aspects of the Scheme, the Early Termination Fee and the Rebated Early Withdrawal Fee may be viewed as a disadvantage for ALF Shareholders who cannot invest in the Watermark Fund or who wish to exit their investment in the Watermark Fund during the Initial Investment Period.

However, these ALF Shareholders are reminded that the Scheme still offers both:

- mechanism to achieve a withdrawal price that is close to NAV per New Unit (compared to the current significant discount of ALF Shares to their NTA);
- the opportunity to do so (via monthly withdrawals, as opposed to the current significant illiquidity of ALF Shares).

ALF Shareholders who are Ineligible Foreign Shareholders or who (in their future new capacity as New Unitholders) may wish to exit their investment in the Watermark Fund within the Initial Investment Period, may conclude that the extent of any fee disadvantage for them does not outweigh the economic benefit of achieving a withdrawal price at that is close to NAV per New Unit that the Scheme offers. These ALF Shareholders may therefore consider that these fees are not a material reason for them to vote against the Scheme, the Capital Reduction and Early Termination Fee Resolutions.

### **3.6. APPROVAL OF THE EARLY TERMINATION FEE AT THE GENERAL MEETING**

#### **(a) Early Termination Fee**

Your Independent Directors recognise that the payment of the Early Termination Fee by ALF to Watermark Funds Management (in its capacity as the ALF Manager) would constitute the provision of a financial benefit by ALF to a related party for the purposes of Chapter 2E of the Corporations Act.

Chapter 2E provides that for a public company to give a financial benefit to a related party, the public company must either obtain member approval (and give the benefit within 15 months of member approval) or the giving of the benefit must fall within an exception in sections 210 to 216 of the Corporations Act.

Section 210 of the Corporations Act allows a public company to provide a financial benefit to a related party without member approval if the financial benefit is given on terms that:

- would be reasonable in the circumstances if the public company and the related party were dealing at arm's length; or
- are less favourable to the related party than the terms referred to in the preceding bullet point.

There is little comparable market data as to other negotiated termination fees where a LIC management agreement has been terminated before the conclusion of its agreed fixed term. ALF is not aware of any negotiated termination fees similar to those proposed by ALF (i.e. fixed cash amount rather than a percentage of the assets).

In August 2020 Ellerston Global Investments Limited paid its investment manager a negotiated termination payment in respect of the termination of an investment management agreement of 1.50% of the NTA backing of each security in each class of shares in Ellerston's asset portfolio as calculated under the ASX Listing Rules. The Early Termination Fee proposed by ALF is materially less, reflecting approximately 1% of the ALF Portfolio. The Independent Directors negotiated the Early Termination Fee because they considered that having a fixed fee payable by ALF was more appropriate than a termination fee set up reference to ALF's net assets prior

to completion of the Scheme.

In the absence of readily available and comparable market data, the proposed payment of the Early Termination Fee is to be separately approved by ALF Shareholders under Chapter 2E (section 208(1)) of the Corporations Act.

ALF Shareholders' approval for ALF to pay the Early Termination Fee to Watermark Funds Management will be sought at the Annual General Meeting.

### **Personal Interests**

Mr Justin Braitling, as the sole director and shareholder of Watermark Funds Management (in its capacity as the Manager) has a personal interest in the amount of the Early Termination Fee and receipt of these fees.

Mr Geoff Wilson AO has an indirect personal interest in the amount of the Early Termination Fee and its receipt via an arrangement between Boutique Asset Management, a company 80% owned by entities associated with Geoff Wilson AO and Watermark Funds Management pursuant to which Watermark Funds Management pays 25% of all fees received from ALF to Boutique Asset Management.

None of the Independent Directors have a personal interest in the amount of the Early Termination Fee or its receipt by Watermark Funds Management.

### **Section 219 Disclosure requirements guide**

Section 219 of the Corporations Act stipulates that certain matters must be addressed in the Scheme Explanatory Statement. Below is a summary of the required disclosures and details of the location within the Booklet of additional information.

- **Related party to receive financial benefits (Section 219(1)(a)):** Watermark Funds Management. See Section 3.6(a) for details.
- **Nature of the financial benefits (Section 219(1)(b)):** the payment of the Early Termination Fee by ALF to Watermark Funds Management (in its capacity as the Manager) constitutes the provision of a financial benefit by ALF to a related party (Watermark Funds Management) for the purposes of Chapter 2E of the Corporations Act.
- **Directors recommendations (Section 219(1)(c)):** Mr Justin Braitling and Mr Geoff Wilson AO make no recommendation for the reasons set out under the heading "Personal Interests" in Section 3.6(a). See Section 3.6(d) for the recommendation of the Independent Directors
- **Director interests in the outcome of the resolution (Section 219(1)(d)):** Mr Justin Braitling and Mr Geoff Wilson AO have personal interests in the outcome of the Early Termination Fee Resolution. See heading "Personal Interests" in Section 3.6(a) for details.
- **Other information relevant to whether or not it is in ALF's interests to pass the proposed resolution (Section 219(1)(e)):** The information in the Booklet is relevant to the Early Termination Fee Resolution, including but not limited to Sections 3.5, 3.6 and 12.4.

### **(b) Capital Reduction**

To implement the Scheme, ALF will undertake a Capital Reduction. The Capital Reduction is a return of capital to Scheme Participants on their ALF Shares (that will apply equally across all Scheme Shares).

The Capital Reduction will not be paid in cash to ALF Shareholders. Instead, the Capital Reduction amount will be satisfied via an in specie distribution of New Units under the Scheme.

As such, if the Capital Reduction is approved and the Scheme becomes Effective, ALF will cancel all Scheme Shares and the Scheme Participants will be entitled to receive the Scheme Consideration. Scheme Consideration which Ineligible Foreign Shareholders are entitled to will be transferred to the Nominee and withdrawn.

The Capital Reduction requires separate ALF Shareholder approval, and is a necessary step in the process of giving effect to the Scheme (in addition to the Scheme itself). ALF Shareholders approval for Capital Reduction will be sought at the Annual General Meeting.

**(c) Creditors**

In the opinion of the Independent Directors, the Capital Reduction will not, if implemented, materially prejudice ALF's ability to pay its existing creditors.

Further, in the opinion of the Independent Directors, the Scheme will not, if implemented, materially prejudice the ability of ALF to pay the creditors which it assumes as part of the Scheme.

**(d) Independent Directors recommend voting in favour of Capital Reduction Resolution and the Early Termination Fee Resolution**

Your Independent Directors unanimously recommend that Shareholders vote in favour of the Capital Reduction Resolution and the Early Termination Fee Resolution at the Annual General Meeting in the absence of Superior Proposal.

The Independent Expert has specifically considered the Capital Reduction, the Early Termination Fee as well as the management fee waiver and Rebated Early Withdrawal Fee arrangements as part of its conclusion that the Scheme is fair and reasonable and in the best interest of ALF Shareholders. See Section 4 of the Independent Expert's Report at Annexure A.

Mr Justin Braithling and Mr Geoff Wilson AO make no recommendation on any of the Resolutions and will not vote in respect of the Early Termination Fee Resolution. See Section 3.6 for details.

**(e) Inter-dependency with Scheme Resolution**

ALF Shareholders will consider and vote on the Capital Reduction proposal and the proposal for ALF to pay the Early Termination Fee to the Manager at the Annual General Meeting.

Information regarding the convening and holding of the Annual General Meeting is set out at Section 4 of this Booklet, as well as the Notice of Annual General Meeting included as Annexure E to this Booklet.

The approval of the Capital Reduction Resolution and the Early Termination Fee Resolution are conditions for the Scheme to proceed. Similarly, the approval of the Scheme (and it becoming Effective) is a condition for ALF to undertake the Capital Reduction, for the Board to determine, and for ALF to pay a fully franked cash Dividend to Scheme Participants and pay the Early Termination Fee to Watermark Funds Management (in its capacity as the Manager).

The Capital Reduction and the Early Termination Fee Resolutions are inter-dependent and conditional on the Scheme Resolution being approved at the Scheme Meeting. This means that if the Scheme Resolution is not approved by the requisite majorities, the Capital Reduction and the Early Termination Fee Resolutions will not be put to a vote at the Annual General Meeting. Also in order for the Capital Reduction Resolution and the Early Termination Fee Resolution to be effective, both resolutions must be passed by the requisite majorities at the Annual General Meeting.

Unless all three resolutions (the Scheme Resolution, Capital Reduction Resolution and the Early Termination Fee Resolution) are approved, the Scheme cannot proceed.

This inter-dependency reflects the integrated nature of the overall proposal that ALF Shareholders are being asked to consider and vote on.

**(f) Eligibility to vote at the Annual General Meeting**

Subject to the voting exclusion noted in Sections 3.6(a) and Annexure E, each person who is registered on the ALF Share Register as an ALF Shareholder as at the voting entitlement time 7.00pm (Sydney time) on 6 March 2021 is entitled to attend and vote at the Annual General Meeting, either online, by proxy or attorney or, in the case of a corporate ALF Shareholder or proxy, by a representative.

Section 4 and Annexure E of this Booklet set out the instructions for how to vote at the Annual General Meeting. A separate AGM Proxy Form for the Annual General Meeting is enclosed with this Explanatory Booklet.

**3.7. OTHER RELEVANT CONSIDERATIONS**

**(a) The Scheme may be implemented even if you vote against the Scheme or you do not vote at all**

You should be aware that even if you do not vote, or vote against one or all of the Resolutions at the Meetings, the Scheme may still be implemented if the three Resolutions are approved by ALF Shareholders at the Meeting, and the Scheme is approved by the Court.

If this occurs, you will keep your ALF Shares and you will receive the Scheme Consideration even though you did not vote, or voted against, the Scheme at the Meetings.

**(b) Taxation**

If the Scheme is implemented, it may result in taxation implications for ALF Shareholders. These implications will differ depending on the individual circumstances of each ALF Shareholder.

A general outline of the potential Australian tax implications of the Scheme for ALF Shareholders is set out in Section 10.1.

**(c) Different Governance Structure**

The governance structure of the Watermark Fund will be different to that of ALF. The Responsible Entity has a compliance committee with a majority of independent members as opposed to a board of directors like ALF.

The Responsible Entity and the Watermark Fund will in addition be subject to the regulatory and compliance obligations of an Australian Financial Services Licensee and a registered managed investment scheme respectively.

## 4. HOW TO VOTE

This section provides you with information on the Scheme Meeting and General Meeting and how to vote at the Meetings. Additional information about voting by proxy is set out on the Proxy Forms, accompanying this Booklet.

### 4.1. SCHEME MEETING

The notice convening the Scheme Meeting is contained in Annexure D to this Booklet. A personalised Scheme Proxy Form for the Scheme Meeting accompanies this Booklet.

The Scheme Meeting is scheduled to be held at 11.00am on 8 March 2021.

In order for the Scheme to be implemented, the Scheme Resolution must be approved by ALF Shareholders at the Scheme Meeting. This means votes in favour of the Scheme Resolution must be received from:

- a majority in number (more than 50%) of ALF Shareholders present and voting at the Scheme Meeting (whether in person, by proxy, by attorney or, by corporate representative); and
- at least 75% of the total number of votes cast on the Scheme Resolution (whether in person, by proxy, by attorney or, by corporate representative).

The purpose and effect of the Scheme are as summarised earlier and are more particularly described in Sections 1, 8 and 11 and elsewhere in this Booklet.

### 4.2. ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting is contained in Annexure E to this Booklet. A personalised AGM Proxy Form for the Annual General Meeting accompanies this Booklet.

The Annual General Meeting is scheduled to be held after the Scheme Meeting on 8 March 2021 at 11.30am or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later).

### 4.3. EXPLANATORY STATEMENT FOR AGM RESOLUTIONS

The purpose of the Annual General Meeting is to consider Resolutions required to be put at ALF's 2020 AGM and the Capital Reduction and Early Termination Fee Resolutions. If the any approvals required for the Scheme to proceed are not passed, resolutions for the appointment of Mr Malcolm McComas and Mr Rob Ferguson as directors of ALF will be considered at the Annual General Meeting. This Section 4.3 provides ALF Shareholders with important information in relation to item of business to be considered by ALF Shareholders at the Annual General Meeting.

#### (a) Financial statements and reports (Not voted on)

ALF's financial statements, together with the Directors' Report and the Auditor's Report for the financial year ended 30 June 2020 (**Reports**) will be laid before the AGM as required by section 317 of the *Corporations Act 2001* (Cth) (**Act**). The Act does not require a vote of shareholders on the Reports.

During this item of business, shareholders will be given reasonable opportunity to ask questions and make comments in relation to the Reports, and the business and management of ALF. Shareholders will also be given reasonable opportunity to ask a representative of ALF's auditor, Pitcher Partners, questions relevant to the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by ALF in the preparation of the financial statements or the independence of the auditor in relation to the conduct of the audit.

(b) **Resolution 1: Adoption of the Remuneration Report**

Resolution 1 provides shareholders the opportunity to vote on ALF's Remuneration Report. Under section 250R(2) of the Corporations Act, ALF must put the adoption of its Remuneration Report to the vote at its AGM. The Remuneration Report forms part of the Directors' Report and is set out in ALF's 2020 Annual Report. The vote is advisory only and does not bind the directors or ALF.

If 25% or more of the votes cast are against the adoption of the Remuneration Report, the next Directors' Report must include an explanation of the board's proposed action in response or, if the board does not propose any action, the board's reasons for inaction.

If 25% or more of the votes cast are against the adoption of the Remuneration Report at two consecutive AGMs, ALF will be required to put to shareholders at the second AGM a resolution on whether another meeting should be held (within 90 days) at which all directors (other than the managing director, if any) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

Section 250R(4) of the Corporations Act prohibits any votes being cast on Resolution 1 by or on behalf of a person who is disclosed in the Remuneration Report as a member of the key management personnel (**KMP**) of ALF (including the directors and the Chairman) or a closely related party of that KMP. Their closely related parties are defined in the Act and include certain family members, dependants and companies they control.

However, such a person may cast a vote on Resolution 1 as a proxy for a person who is permitted to vote if:

- the appointment of the proxy specifies the way in which the proxy is to vote on the resolution; or
- such a person is the Chairman of the meeting and the appointment of the proxy expressly authorises the Chairman of the meeting to exercise the undirected proxies even if the resolution is connected with the remuneration of a member of the KMP.

The directors encourage all shareholders to read the Remuneration Report and vote on this important resolution. The Chairman will vote all undirected proxies in favour of this resolution. If you wish to vote 'against' or 'abstain', you should mark the relevant box in the attached proxy form.

*Recommendation*

The Directors recommend that shareholders vote in favour of Resolution 1.

(c) **Resolution 2: Retirement and re-election of Mr Geoff Wilson AO as director**

Rule 6.7 of ALF's Constitution requires that at every annual general meeting, one third, or the number nearest to one third (rounded up to the nearest whole number) of ALF's longest serving directors since last being elected or re-elected, excluding any director appointed by the remaining directors to either fill a casual vacancy or as an addition to the existing directors, must retire from office. Each retiring director is eligible for re-election in accordance with the ALF Constitution.

As the longest serving director of ALF, Mr Geoff Wilson AO is retiring from office and offers himself for re-election. A summary of Geoff Wilson AO's qualifications and experience is detailed in Section 6.3.

*Recommendation*

The Directors (other than the relevant director in relation to their re-election) recommend that

shareholders vote in favour of this Resolution 2 at the Annual General Meeting.

**(d) Early Termination Fee Resolution and the Capital Reduction Resolution**

The purpose and effect of the Capital Reduction and Early Termination Fee Resolutions (see Section 3.6) are as summarised earlier and are more particularly described in Section 12 of this Booklet.

**(e) Resolutions if the Scheme is not approved**

Mr Malcolm McComas and Mr Rob Ferguson have been nominated for election to the Board by ALF Shareholders holding greater than 5% of ALF Shares.

The nomination, and the resolutions to appoint Mr Malcolm McComas and Mr Rob Ferguson, are conditional and will only be considered by members if one or more of the Resolutions required for the Scheme to become Effective is not passed at the Scheme Meeting or Annual General Meeting.

Accordingly, Resolutions 5 and 6 will not be put to the Annual General Meeting if members approve the Scheme.

A member's statement pursuant to section 249P of the Corporations Act produced by Mr McComas and Mr Ferguson is provided to ALF Shareholders with this Booklet.

**(f) Ordinary Resolutions**

Each Resolution proposed to be put at the Annual General Meeting requires the approval of a simple majority (more than 50%) of the votes cast by ALF Shareholders present and voting at the General Meeting, whether in person, by proxy or attorney or, in the case of a corporate ALF Shareholder or proxy, by a representative.

#### **4.4. YOUR VOTE IS IMPORTANT**

Your Independent Directors urge all ALF Shareholders to vote on the Resolutions to be put to ALF Shareholders at the Meetings.

The Scheme affects your Shareholding and your votes at the Meetings are important in determining whether the Scheme proceeds.

Voting on the Scheme at the Scheme Meeting and on the Capital Reduction Resolution and Early Termination Fee Resolution at the Annual General Meeting are important.

For the reasons detailed in Section 1 and elsewhere in this Booklet, the Independent Directors unanimously recommend that you vote in favour of the Scheme Resolution and the Capital Reduction Resolution and Early Termination Fee Resolution.

Further information on how to vote is provided in Annexure E and Sections 4.7, 4.7(a) and 4.7(c).

#### **4.5. DETAILS OF THE MEETINGS**

In response to the global COVID-19 pandemic and government restrictions on physical gatherings, the Meetings will be held as a virtual (online only) meeting. There will be no physical meetings where ALF Shareholders and proxies can attend in person.

The details of the Scheme Meeting are as follows:

|          |  |
|----------|--|
| Location | Attend and participate in the virtual Scheme Meeting by logging in online at |
|----------|--|



|      |   |
|------|---|
|      | <a href="https://web.lumiagm.com/?fromUrl=356975937">https://web.lumiagm.com/?fromUrl=356975937</a> |
| Date | 8 March 2021  |
| Time | 11.00am (Sydney time)   |

The details of the Annual General Meeting are as follows:

|                  |  |
|------------------|--|
| Virtual Location | Attend and participate in the virtual Annual General Meeting by logging in online at <a href="https://web.lumiagm.com/352-380-901">https://web.lumiagm.com/352-380-901</a> |
| Date             | 8 March 2021   |
| Time             | 11.30am (Sydney time) or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later)                              |

#### 4.6. WHO IS ENTITLED TO ATTEND VOTE?

##### (a) Voting entitlement

Each person that is registered on the Share Register at 7.00pm (Sydney time) on 6 March 2021 is entitled to attend and vote at the Meetings, either in person, by proxy or attorney.

Voting at the Meetings will be conducted by poll.

In the case of ALF Shares held by joint holders, only one of the joint shareholders is entitled to vote. If more than one shareholder votes in relation to jointly held ALF Shares, only the vote of the shareholder whose name appears first in the Share Register will be counted.

If you are a corporate shareholder, then you can appoint a corporate representative to attend and vote at the Meetings.

##### (b) Voting restrictions

Voting Restrictions in respect of the Scheme Meeting are detailed in Annexure D.

Voting restrictions in respect of resolutions to be put at the Annual General Meeting are detailed in Annexure E.

#### 4.7. HOW TO VOTE ON THE MEETINGS

You can vote:

- **in person**, by attending the Scheme Meeting and the Annual General Meeting virtually;
- **by mailing** the accompanying Proxy Form so that it is received before 11.00am (Sydney time) on 6 March 2021 at:

*Australian Leaders Fund Limited  
C/- Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001*

- **by delivering in person** the accompanying Proxy Form so that it is received before

11.00am (Sydney time) on 6 March 2021 at:

*Australian Leaders Fund Limited  
C/- Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000*

- **by faxing** the accompanying Proxy Forms so that it is received before 11.00am (Sydney time) on 6 March 2021 to +61 2 9279 0664.
- **online** by visiting <https://www.votingonline.com.au/alfgm2021> (Scheme Meeting) and [www.votingonline.com.au/alfagm2020](https://www.votingonline.com.au/alfagm2020) (Annual General Meeting) and following the instructions in your Proxy Forms to submit your voting intentions by 11.00am (Sydney time) on 6 March 2021.

(a) **Voting in person at the Virtual Meetings**

Attending the Scheme Meeting and Annual General Meeting virtually enables ALF Shareholders to view, participate in and vote at both the Scheme Meeting and the Annual General Meeting live. Shareholders will be able to attend the Meetings by using their web browser or internet enabled device.

ALF Shareholders can attend the Scheme Meeting and Annual General Meeting virtually by following these steps:

- Join from either:
  - **Your computer**, by entering the URL into your browser:
    - Scheme Meeting <https://www.votingonline.com.au/alfgm2021>; or
    - Annual General Meeting [www.votingonline.com.au/alfagm2020](https://www.votingonline.com.au/alfagm2020); or
  - **Your mobile** device by either entering the URL into your browser (per above) or by using the Lumi AGM app, which is available by downloading the app from the Apple App Store or Google Play Store.
- Entering the meeting ID which is:
  - Annual General Meeting: **352-380-901**; and
  - Scheme Meeting: **356-975-937**.
- Entering your username, which is your Voting Access Code (VAC). You will find this located on the first page of each of your Proxy Forms. The same code is used for both the Scheme Meeting and the Annual General Meeting.
- Entering your password, which is the postcode registered to your holding if you are an Australian shareholder. Overseas shareholders should refer to the Online User Guide for their password details.

ALF Shareholders are also able to ask text-based questions and cast votes in the real time poll, at the appropriate time.

If ALF Shareholders attend either the Scheme Meeting and/or Annual General Meeting online and vote on any Resolution when the Chair calls a poll, any proxy vote previously lodged by the ALF Shareholder in respect of that resolution will be withdrawn.

**(b) Voting by attorney**

ALF Shareholders wishing to vote by attorney at the Meetings must, if they have not already presented an appropriate power of attorney to ALF for notation, deliver to ALF the original instrument appointing the attorney by no later than 11.00am (Sydney time) on 6 March 2021 (or, if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting in relation to the resumed part of the Scheme Meeting).

Unless the contrary is evident from the express terms of attorney, any power of attorney granted by an ALF Shareholder will, as between ALF and that ALF Shareholder, continue in force and may be acted on, unless express notice in writing of its revocation or the death of the relevant ALF Shareholder is lodged with ALF.

**(c) Voting by corporate representative**

To vote by corporate representative at the Scheme Meeting and Annual General Meeting, a corporate ALF Shareholder or proxy should obtain an appointment of corporate representative form from ALF and complete and sign the form in accordance with the instructions on it. The appointment of corporate representative form must then be lodged either prior to the Scheme Meeting with the Registry or at the registration desk on the day of the Meetings.

The appointment of a representative may set out restrictions on the representative's powers.

The original form of appointment of a representative or a certificate of the body corporate evidencing the appointment of a representative is evidence of a representative having been appointed.

The Chairman of the Meetings may permit a person claiming to be a representative to exercise the appointing body's powers even if they have not produced a certificate or other satisfactory evidence of their appointment.

**4.8. UNDIRECTED PROXIES**

The Chair of the Meetings will act as your proxy if the Proxy Form is returned to the Registry without naming a proxy or proxies.

Proxy appointments in favour of the Chair, the company secretary of ALF or any ALF Director which do not contain a direction as to how to vote will be voted in support of the Scheme Resolution at the Scheme Meeting and Resolutions 1 to 4 (including the Capital Reduction Resolution and the Early Termination Fee Resolution) to be put to the Annual General Meeting.

Any undirected proxies in favour of the Chair, the company secretary of ALF or any ALF Director will be voted against Resolutions 5 and 6 at the Annual General Meeting, if those resolutions are put to members. Resolutions 5 and 6 are conditional and will only be considered by ALF Shareholders if the Scheme is not approved.

**4.9. FURTHER INFORMATION**

If you have any questions in relation to the Scheme or the Meetings, including the number of ALF Shares you hold or how to vote, you can call the Shareholder Information Line on weekdays between 9.00am and 5.00pm (Sydney time) on 1300 737 760 (within Australia) or +61 2 9290 9600 (outside Australia).

If you are in any doubt about anything in this Booklet, please contact your legal, financial or other professional adviser.

## 5. RISK FACTORS

This Section 5 describes what the Independent Directors believe to be the principle risks associated with the Scheme. You should note that this section is not an exhaustive list of the risks associated with the Scheme and it should be considered in conjunction with all other information disclosed in this Booklet.

You should carefully consider these risks in light of your personal circumstances and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding how to vote.

### 5.1. RISK FACTORS FACED BY ALF

The risks specific to ALF that are set out below, as well as others described elsewhere in this Booklet, should be carefully considered in evaluating the Scheme.

ALF Shareholders are reminded that as at the date of this Booklet the Manager has liquidated the majority of investments within the ALF Portfolio such that the ALF Portfolio is predominately comprised of cash. The ALF Portfolio will remain predominately held in cash until the Implementation Date or termination of the Scheme Implementation Deed (whichever occurs first).

Accordingly, consistent with the requirements set out in the Scheme Implementation Deed, ALF will not hold any short positions or use derivatives or be subject to many of risks associated with Watermark's Long/Short investment strategy between the date of this Booklet and the Implementation Date or termination of the Scheme Implementation Deed (whichever occurs first).

If the Scheme does not proceed, ALF will continue to be subject to the risks below.

#### (a) **Manager risk**

The success and profitability of ALF in part depends upon the retention of the Manager as manager of ALF and the retention of key personnel within the Manager with responsibility for managing the ALF Portfolio.

If the Scheme does not become Effective but the ALF Management Agreement is terminated, ALF will need to identify and engage a suitably qualified and experienced investment manager to implement Watermark's Long/Short investment strategy.

#### (b) **Investment risk**

The value of an ALF Shareholder's investment may fall from time to time for a number of reasons, including but not limited to the risks set out in this section of this Booklet. This means that ALF Shareholders may receive less than their original investment when they sell their ALF Shares.

#### (c) **Market and economic risk**

Certain events may have a negative effect on the price of all types of investments within a particular market. These events may include changes in economic, social, technological or political conditions, as well as market sentiment. Investment strategies can minimise market and economic risks but cannot eliminate them entirely.

Limited exposure to market risk may result in underperformance against market indices during period when the market is performing strongly.

(d) **Asset risk**

Long positions falling in value and short positions rising in value (separately or concurrently), could result in a reduction in the value of investments in the ALF Portfolio and have a negative impact, either directly or indirectly, on investment returns.

(e) **Currency risk**

For investments in international assets, which have currency exposure, there is potential for adverse movements in exchange rates to reduce their Australian dollar value. For example, if the Australian dollar rises, the value of international investments expressed in Australian dollars can fall.

(f) **Interest rate risk**

Changes in interest rates may have a negative impact, either directly or indirectly, on investment returns.

(g) **Liquidity risk**

There is a risk that the securities in which ALF is invested, or securities in ALF itself, may become illiquid. This may result in a loss if the holder of the security needs to sell it within a particular timeframe.

(h) **Leverage risk**

The use of 'short sales' may have an effect similar to leverage in that it can enlarge the fluctuations in the aggregate value of investments.

(i) **Derivatives risk**

Derivative values can fluctuate significantly and in certain circumstances a derivative can be more volatile than the underlying asset or index.

The value of a derivative contract may fall as a result of an adverse movement in the underlying asset or index. Losses can be magnified where a greater exposure is created through the derivative position than is backed by available assets. Derivatives may also be subject to liquidity risk and/or counter-party risk. Depending on market conditions, derivative positions can be costly and/or difficult to reverse.

(j) **Counter-party risk**

A loss may occur if the other party to a contract, including derivatives contracts or lending arrangements (cash or stocks), defaults on their obligations under the contract.

(k) **Other ALF risks**

Investing in ALF may have a different tax outcome than investing directly in the share market.

The future earnings of ALF and the value of the investments of ALF may be affected by the general economic climate, commodity prices, currency movements, changing government policy and other factors beyond the control of ALF. As a result, no guarantee can be given in respect of the future earnings of ALF or the earnings and capital appreciation of ALF's investments. Examples of variations that may affect the value of investments of ALF include, but are not limited to:

- variations in legislation and government policies (for example, legislation or regulatory restrictions on short selling or other activities required to implement the strategy);

- any variation in the taxation laws of Australia;
- any variation in foreign exchange rates; and/or
- any variation in short- and long-term interest rates.

## **5.2. RISK FACTORS FACED BY THE WATERMARK FUND**

### **(a) Withdrawal risk**

In the absence of an established market or shortage of buyers for certain investments, the Watermark Fund may not be liquid from time to time.

This means there is a risk an investor will have difficulty withdrawing its investment. While the Responsible Entity generally strives to make proceeds from an investor's withdrawal request available as soon as practicable from when the Responsible Entity has processed the request, in certain circumstances, the Responsible Entity may not be able to meet your withdrawal request when received (see section 6 of the PDS for further details).

For all other risks faced by the Watermark Fund (including the risks on the Watermark's Long/Short investment strategy) please refer to section 6 of the PDS.

### **(b) Equity funds general risk**

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

### **(c) Investment strategy risk**

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

### **(d) Short selling risk**

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

### **(e) Leverage risk**

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

(f) **Investment manager risk**

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

(g) **Market risk**

The Watermark Fund's portfolio will be constructed so as to minimise market risks. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously. Certain events may have a negative effect on the price of all types of investments within a particular market. Conversely, in a strong share market, the Watermark Fund may underperform rising securities market indices.

(h) **Counterparty risk**

The Watermark Fund uses the services of prime brokers to facilitate the lending of securities to short sell. Until the Watermark Fund returns a borrowed security, it will be required to maintain assets with the prime broker as collateral. As such, the Watermark Fund may be exposed to certain risks in respect of that collateral.

(i) **Liquidity risk**

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

(j) **Small cap stock risk**

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

(k) **Portfolio turnover risk**

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

(l) **Derivatives risk**

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

Derivative may also be subject to liquidity risk and/or counterparty risk. Depending on the market conditions derivative positions can be costly or difficult to reverse.

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

### **5.3. RISK FACTORS SPECIFIC TO THE SCHEME**

#### **(a) Conditions not met**

The Scheme is subject to a number of Scheme Conditions which are summarised in Section 11.10 of this Booklet and set out in full in clause 3 of the Scheme Implementation Deed. At the date of this Booklet, ALF is not aware of any circumstances which would cause the Scheme Conditions not to be satisfied or (if applicable) waived. However, there is a possibility that one or more of the Scheme Conditions will not be met or waived and the Scheme will not proceed as a result.

If the Scheme is not implemented, Transaction Costs in connection with the Scheme will be met by ALF.



## **6. INFORMATION ON ALF**

### **6.1. ALF'S PROFILE**

ALF's investment objective is to deliver superior returns with reduced market risk while returning a consistent stream of fully franked dividends to Shareholders.

The Manager's investment process seeks to identify mispriced securities, investing in good companies which are undervalued by the broader market and selling (shorting) the shares of businesses that the Manager considers fundamentally challenged, where these shares can be sold for more than they are worth.

The proceeds raised from short selling these shares are an additional source of funding, which can either be retained in cash or re-invested.

This active approach to portfolio construction and balance sheet management seeks to profit from mispricing in all market segments and can provide greater flexibility in managing portfolio risk (as short positions are a natural hedge for ALF's assets if shares fall in value).

### **6.2. ALF PORTFOLIO**

As at the date of this Booklet the majority of positions within the ALF Portfolio have been liquidated and the ALF Portfolio consists predominately cash. Under the Scheme Implementation Deed, the ALF Portfolio will remain predominately in cash until the Implementation Date.

### **6.3. DIRECTORS**

The Directors of ALF, as at the date of this Booklet are set out below:

|  |   |
|--|---|
| <b>Justin Braitling<br/>(Chairman)</b> | <p>Justin has over 25 years' experience in investing in Australian and international securities. He was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002.</p> <p>Justin is the founder and sole director of the Manager, Watermark Funds Management Pty Ltd. He has been a director of ALF since October 2003 and became Chairman in February 2007.</p> <p>Justin holds a Bachelor of Economics (Hons) degree from Macquarie University.</p>  |
| <b>John Abernethy</b>                  | <p>John Abernethy has over 35 years' experience in funds management and corporate advisory. He holds a Bachelor of Commerce and Bachelor of Laws (BCom/LLB) from the University of New South Wales.</p> <p>He spent ten years at NRMA Investments as Head of Equities. In 1994 he joined Poynton Corporate Limited as an Executive Director before forming Loftus Capital Partners (now Clime Investment Management Limited) in 1996.</p> <p>John is the Chairman of Clime Capital Limited. He is a director of Clime Investment Management Limited and Jasco Holdings Limited.</p> |
| <b>Geoff Wilson AO</b>                 | <p>Geoff Wilson AO has over 40 years' experience in the Australian and international securities industry. He holds a Bachelor of Science Degree, a Graduate Management Qualification and is a Fellow of the Australian Institute of Company Directors and the Financial Services Institute of Australia. Geoff Wilson AO has been a Director of ALF since October 2003 and was Chairman from this time until February 2007.</p>   |

|                     |   |
|---------------------|---|
|                     | He is the founder and director of investment management companies Wilson Asset Management (International) Pty Limited and MAM Pty Limited.  |
| <b>Julian Gosse</b> | <p>Julian Gosse has extensive experience in banking and broking both in Australia and overseas having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. He has been involved in the establishment, operation and ownership of several small businesses. Julian Gosse has been a Director of ALF since October 2003.</p> <p>Julian Gosse is a director of WAM Research Limited (appointed June 2003) and Clime Capital Limited (appointed November 2003).</p> |

#### **6.4. THE MANAGER**

ALF has appointed the Manager to manage the ALF Portfolio and supervise ALF's investments .

The Manager is an active investor in Australian listed securities. Established in 2003 by Justin Braitling.

The Manager is a specialist long/short investor, offering a suite of listed and unlisted hedge fund products to institutional and retail investors. As at the date of this booklet, the Manager has funds under management in excess of \$200 million, invested exclusively in long/short and market neutral investment strategies.

#### **6.5. ALF MANAGEMENT AGREEMENT**

##### *Powers of the Manager*

Subject to the obligation to liquidate the ALF Portfolio to meet ALF's operating costs, dividend payments, capital returns, buybacks, or other distributions, the Manager has absolute and unfettered discretion to manage the ALF Portfolio and to do all things considered necessary or desirable in relation to the management of the ALF Portfolio.

The Manager is permitted to undertake investments on behalf of ALF without Board approval. However, if the proposed investment is not in accordance with the investment principles outlined above, Board approval for the investment is required.

##### *Valuations*

The Manager must arrange for calculation of the value of the ALF Portfolio at least monthly or at such more frequent times as may be agreed between the Manager and ALF. All costs incurred in arranging this calculation are paid by ALF.

##### *Management Fee*

In return for the performance of its duties as Manager of the ALF Portfolio, the Manager is entitled to be paid a management fee equal to 1% p.a. (plus GST) of the value of the ALF gross assets (payable monthly in arrears and calculated on the last Business Day of each month) (**Management Fee**).

##### *Performance Fee*

In addition to the Management Fee, the Manager is entitled to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the value of the ALF Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the

amount of the increase in value of the ALF Portfolio.

No performance fee is payable in respect of any performance period where the ALF Portfolio has decreased in value over that period.

For the year ended 30 June 2020, no performance fee was payable to Watermark Funds Management Pty Ltd.

#### *Term of the ALF Management Agreement*

The ALF Management Agreement has a fixed 25 year term which commenced on February 2004 (being the date ALF issued Shares and options prior to listing on ASX). As at the date of this Booklet, there is approximately 8 years remaining on term of the ALF Management Agreement.

The Manager is entitled to terminate the ALF Management Agreement on 6 months' notice to ALF. ALF's termination rights are far more limited however. ALF can only terminate the ALF Management Agreement at any time if the Manager becomes insolvent or breaches its obligations under the ALF Management Agreement in a material respect and such breach cannot be rectified. If ALF terminates the ALF Management Agreement in accordance with any of these rights, it must pay to the Manager a fee equal to the aggregate Management Fees and performance fees paid to the Manager in the 12-month period up to the date of termination.

While no termination fee is payable under the ALF Management Agreement, Shareholders are reminded that the ALF Management Agreement has approximately 8 years remaining. Through negotiations between ALF (represented by its Independent Board Committee) and Watermark Funds Management in its capacity as the Manager, it has been agreed that ALF will pay to Watermark Funds Management the Early Termination Fee if the Scheme proceeds and the ALF Management Agreement is terminated on the Implementation Date.

#### *Removal of the Manager*

In addition to the above termination rights, ALF may remove the Manager on one months' notice if:

- the Manager persistently fails to ensure that investments made on behalf of ALF are consistent with Watermark's Long/Short investment strategy applicable at the time the investment is made;
- the Manager is in default or breach of its obligations under the ALF Management Agreement in a material respect, such default or breach is rectifiable and is not rectified within 30 days after ALF has notified the Manager in writing to rectify the default or breach; or
- the Manager's AFSL is suspended for a period of no less than three months or cancelled at any time in accordance with Subdivision C, Division 4 of Part 7.6 of the Corporations Act.

The Manager may appoint a replacement investment manager if it is removed by ALF in this way provided the appointment takes place within the one month notice period referred to above and the replacement investment manager (a) has a valid and current AFSL; (b) undertakes to comply with the ALF Management Agreement; and (c) rectifies any breaches within the 30 day notice period. If a replacement manager has not been appointed within the one month notice period referred to above, ALF may terminate the ALF Management Agreement.

ALF has no right to terminate the ALF Management Agreement without cause, including if Shareholders were to pass an ordinary resolution directing ALF to terminate the Manager's appointment.

### *Liability and indemnity*

In the absence of negligence, default, fraud or dishonesty, the Manager will not be responsible for any loss, costs, damages or inconvenience that may result from the exercise or failure to exercise its powers, authorities and discretions under the ALF Management Agreement. The Manager must indemnify ALF against any losses or liabilities incurred in connection with, any negligence, default, fraud or dishonesty of the Manager or its officers.

ALF must indemnify the Manager against any losses or liabilities reasonably incurred by the Manager arising out of, or in connection with, and any costs, charges and expenses (including legal expenses) incurred in connection with the Manager or any of its officers, employees or agents acting under the ALF Management Agreement or on account of any bona fide investment decision made by the Manager or its officers or agents except insofar as any loss, liability, cost, charge or expense is caused by the negligence, default, fraud or dishonesty of the Manager or its officers or employees.

### **6.6. ALF CAPITAL STRUCTURE AND OWNERSHIP**

As at the date of this Explanatory Booklet, there were 192,559,158 ALF Shares on issue. ALF has no other securities on issue.

As at the date of this Booklet, ALF has one substantial shareholder: Mirabella Financial Services LLP holding 9,614,701 ALF Shares representing voting power in ALF of 5.00%.

### **6.7. ALF DIRECTORS' INTENTIONS**

If the Scheme becomes Effective, from the Implementation Date ALF will:

- be a wholly owned subsidiary of the Manager; and
- have no assets other than the Retention Amount and cash required to fund outstanding Transaction Costs (if any).

Accordingly:

- all investment and other business operations of ALF will be discontinued on the Implementation Date;
- the Retention Amount will be applied in satisfaction of the costs of winding up ALF and franking deficit tax attributable to the Dividend amount (if any); and
- given ALF does not currently have any employees or fixed assets, there is no requirement for statements regarding the future employment of any person in relation to ALF and/or the redeployment of any fixed assets.

Following the Implementation Date it is expected that all Independent Directors will resign and be replaced by nominees of the Manager, noting that consistent with the Corporations Act, ALF is required as a public company to have not less than three directors.

It is expected that as soon as practicable following the Implementation Date, ALF will be either put into voluntary liquidation or deregistered.

See Section 11.6 for what happens if the Scheme is not implemented.

### **6.8. TRANSACTION COSTS**

The Transaction Costs associated with the Scheme, including all costs associated with implementing the Scheme (including advisers expenses, legal expenses, counsel fees and fees of the Independent Expert), is expected to be approximately \$990,000 and are to be borne by ALF. See Note 5 to in Section 8.4 for details.

The payment of Transaction Costs that remain outstanding following the Implementation Date will be satisfied using the retained cash following successful implementation of the Scheme.

## 6.9. FINANCIAL OVERVIEW OF ALF

### (a) ALF's historical financial information and dividend history

The following table comprises ALF performance, dividend history and non-executive Directors' remuneration:

|   | FY2020        | FY2019         | FY2018        | FY2017        | FY2016        |
|---|---------------|----------------|---------------|---------------|---------------|
| Operating profit/(loss) after tax       | \$1,431,683   | (\$13,491,426) | (\$6,874,008) | \$7,065,282   | \$29,040,927  |
| Dividends paid (cents per ALF Share)    | 5.0 cents     | 4.0 cents      | 0.0 cents     | 9.0 cents     | 10.0 cents    |
| Return of capital (cents per ALF Share) | 0.0 cents     | 0.0 cents      | 4.0 cents     | 0.0 cents     | 0.0 cents     |
| NTA <sup>2</sup> (\$ per ALF Share)     | \$1.12        | \$1.14         | \$1.21        | \$1.26        | \$1.33        |
| Total Directors' remuneration           | \$90,000      | \$90,000       | \$90,000      | \$90,000      | \$90,000      |
| Total Shareholder's Equity              | \$216,874,931 | \$276,639,372  | \$325,387,876 | \$347,957,631 | \$361,790,025 |

Notes:

1. The above information has been drawn from the audited financial statements for ALF and associated disclosures included in ALF's Annual Financial Reports for the years ended 30 June 2016, 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020.
2. NTA is the ALF's net tangible assets before as at 30 June on each of the financial years identified in the above table. The NTA includes any Deferred Tax Asset, net of any tax liabilities accrued.

### (b) Statement of Financial Position

The historical financial position of ALF since 1 July 2018 is set out below:

|   | At<br>30 June 2020<br>(\$) | At<br>30 June 2019<br>(\$) |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>   |                            |                            |
| <b>Current assets</b>                                 |                            |                            |
| Cash and cash equivalents                             | 192,480,163                | 249,034,761                |
| Trade and other receivables                           | 13,507,510                 | 31,604,510                 |
| Financial assets at fair value through profit or loss | 96,445,244                 | 180,883,389                |
| Current tax assets                                    | 1,345,724                  | 3,123,540                  |
| <b>Total current assets</b>                           | <b>303,778,641</b>         | <b>464,646,200</b>         |
| <b>Non-current assets</b>                             |                            |                            |
| Deferred Tax Assets                                   | 16,781,071                 | 16,795,294                 |
| <b>Total non-current assets</b>                       | <b>16,781,071</b>          | <b>16,795,294</b>          |
| <b>Total assets</b>                                   | <b>481,441,494</b>         | !D8 Is Not In Table        |
| <b>LIABILITIES</b>                                    |                            |                            |
| <b>Current liabilities</b>                            |                            |                            |
| Trade and other payables                              | 14,947,616                 | 25,676,081                 |

|  | At<br>30 June 2020<br>(\$) | At<br>30 June 2019<br>(\$) |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>  |                            |                            |
| Derivative financial instruments                           | 10,425                     | -                          |
| Financial liabilities at fair value through profit or loss | 88,332,908                 | 177,769,567                |
| <b>Total current liabilities</b>                           | <b>103,290,949</b>         | <b>203,445,648</b>         |
| <b>Non-current liabilities</b>                             |                            |                            |
| Deferred tax liabilities                                   | 393,832                    | 1,356,474                  |
| <b>Total non-current liabilities</b>                       | <b>393,832</b>             | <b>1,356,474</b>           |
| <b>Total liabilities</b>                                   | <b>103,684,781</b>         | <b>204,802,122</b>         |
| <b>Net assets</b>  | <b>216,874,931</b>         | <b>276,639,372</b>         |
| <b>EQUITY</b>  |                            |                            |
| Issued capital   | 260,667,120                | 310,809,004                |
| Profits reserve  | 1,154,160                  | 325,304                    |
| Accumulated losses   | (44,946,349)               | (34,494,936)               |
| <b>Total Equity</b>  | <b>216,874,931</b>         | <b>276,639,372</b>         |

**Source:** The above information has been drawn from the audited financial statements for ALF and associated disclosures included in ALF's Annual Financial Reports for the years ended 30 June 2019 and 30 June 2020.

### (c) **Statement of Financial Performance**

The historical financial performance of ALF since 1 July 2018 is summarised below:

|   | Year ended        |                  |
|---|-------------------|------------------|
|   | 2020<br>(\$)      | 2019<br>(\$)     |
| <b>Investment income from ordinary activities</b> |                   |                  |
| Net gains/(losses) on investments                 | 11,123,055        | (12,846,923)     |
| Dividends and trust distributions                 | 5,144,708         | 7,097,048        |
| Interest  | 3,270,953         | 7,417,638        |
| Other income                                      | 65,109            | -                |
|   | <b>19,603,825</b> | <b>1,667,763</b> |
| <b>Expenses</b>                                   |                   |                  |
| Management fees                                   | (2,506,396)       | (2,929,221)      |
| Brokerage expense                                 | (3,871,139)       | (3,233,191)      |
| Short dividend expense                            | (7,368,520)       | (9,509,287)      |
| Interest expense                                  | (2,029,469)       | (4,320,841)      |
| Stock loan fees                                   | (1,502,762)       | (1,500,993)      |
| Accounting fees                                   | (151,214)         | (122,226)        |

|                     | Year ended          |                     |
|---------------------|---------------------|---------------------|
|                     | 2020<br>(\$)        | 2019<br>(\$)        |
| Share registry fees | (243,886)           | (191,284)           |
| Tax fees            | (37,180)            | (13,650)            |
| Directors' fees     | (90,000)            | (90,000)            |
| ASX fees            | (89,589)            | (77,886)            |
| Audit fees          | (59,756)            | (43,724)            |
| Other expenses      | (365,097)           | (201,164)           |
|                     | <b>(18,314,828)</b> | <b>(22,233,467)</b> |

|   | Year ended         |                       |
|---|--------------------|-----------------------|
|   | 2020               | 2019                  |
| Profit/(Loss) before income tax                     | <b>\$1,288,997</b> | <b>(\$20,565,704)</b> |
| Income tax benefit                                  | <b>\$142,686</b>   | <b>\$7,074,278</b>    |
| Profit/(Loss) for the year                          | <b>\$1,431,683</b> | <b>(\$13,491,426)</b> |
| Other comprehensive income for the year, net of tax | -                  | -                     |
| Total comprehensive profit/(loss) for the year      | <b>\$1,431,683</b> | <b>(\$13,491,426)</b> |

| Earnings/(loss) per share for profit/(loss) attributable to the ordinary equity holders of ALF: | Year ended |              |
|---|------------|--------------|
|   | 2020       | 2019         |
| Basic earnings/(loss) per share   | 0.63 cents | (5.26 cents) |
| Diluted earnings/(loss) per share   | 0.63 cents | (5.26 cents) |

**Source:** The above information has been drawn from the audited financial statements for ALF and associated disclosures included in ALF's Annual Financial Reports for the years ended 30 June 2019 and 30 June 2020.

**(d) Statement of Cash Flows**

ALF's historical cash flow in respect of the period from 1 July 2018 to 30 June 2020 is summarised below:

|  | Year ended      |                 |
|--|-----------------|-----------------|
|  | 2020<br>(\$)    | 2019<br>(\$)    |
| <b>Cash flows from operating activities</b>        |                 |                 |
| Purchase of financial assets                       | (1,406,351,773) | (1,214,619,104) |
| Proceeds from sale of financial assets             | 1,482,038,690   | 1,341,602,192   |
| Payments for settlements of financial liabilities  | (1,718,401,583) | (1,142,628,866) |
| Proceeds from re-purchase of financial liabilities | 1,655,632,187   | 1,034,621,500   |
| Interest received                                  | 3,662,031       | 7,647,180       |

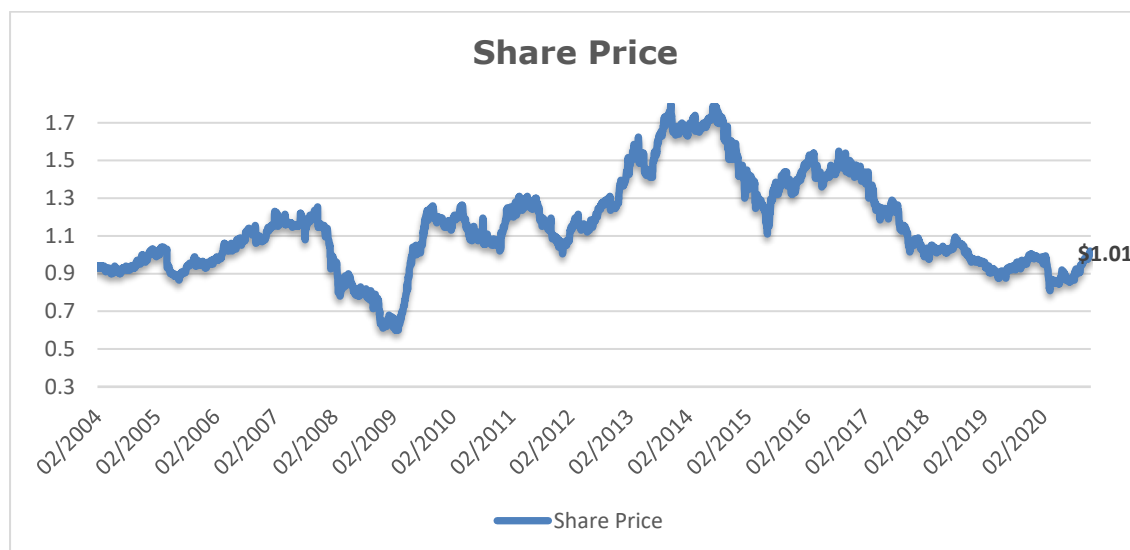
|  | Year ended          |                     |
|--|---------------------|---------------------|
|  | 2020<br>(\$)        | 2019<br>(\$)        |
| Interest paid  | (2,245,883)         | (4,624,602)         |
| Dividends and trust distributions received                   | 5,643,869           | 7,496,432           |
| Dividends paid on short stocks                               | (6,986,184)         | (8,953,934)         |
| Other revenue  | 65,109              | -                   |
| Income taxes paid  | 972,083             | (550,323)           |
| Investment management fees paid                              | (2,546,090)         | (2,966,460)         |
| Brokerage expense  | (3,854,551)         | (3,265,467)         |
| Stock loan fees  | (1,534,033)         | (1,577,460)         |
| Payments for other expenses                                  | (1,335,895)         | (1,030,973)         |
| <b>Net cash inflow from operating activities</b>             | <b>4,757,977</b>    | <b>11,150,115</b>   |
| <b>Cash flows from financing activities</b>                  |                     |                     |
| Dividends paid to ALF's shareholders                         | (11,054,240)        | (10,405,202)        |
| Payments for shares bought back                              | (50,141,884)        | (24,851,876)        |
| <b>Net cash outflow from financing activities</b>            | <b>(61,196,124)</b> | <b>(35,257,078)</b> |
| <b>Net decrease in cash and cash equivalents</b>             | <b>(56,438,147)</b> | <b>(24,106,963)</b> |
| Cash and cash equivalents at the beginning of the year       | 249,034,761         | 273,626,097         |
| Effect of exchange rate changes on cash and cash equivalents | (116,451)           | (484,373)           |
| <b>Cash and cash equivalents at end of year</b>              | <b>192,480,163</b>  | <b>249,034,761</b>  |

**Source:** The above information has been drawn from the audited financial statements for ALF and associated disclosures included in ALF's Annual Financial Reports for the years ended 30 June 2019 and 30 June 2020.



(e) **ALF's recent share price performance**

ALF's ordinary share price performance since inception to 30 November 2020 is shown below:



**Source:** The ALF Share price is based on trading data prepared by Market Index. Market Index has not consented to the use of this data in this Booklet.

The inception date is 10 February 2004, which is the date that ALF was admitted to the official list of the ASX. In the period from inception to 30 November 2007, ALF was known as Wilson Leaders Limited.

(f) **Profit reserve and franking credits**

As at 30 June 2020, ALF's profit reserve was \$1,154,160.

The franking credits available for subsequent reporting years based on a tax rate of 30% and taking into account adjustments for tax payable/refundable in respect to year ended 30 June 2020 profits and receipt of dividends is a deficit of \$1,196,873.

## **6.10. ALF'S DEFERRED TAX ASSETS**

As at 30 June 2020, ALF booked and recognised a Deferred Tax Asset of \$16,781,071.

This Deferred Tax Asset is comprised mainly of income tax losses incurred in prior year financial years. Provided ALF meets the relevant tax loss recoupment test, these income tax losses may be carried forward to later income tax years and recouped against future taxable income. The value of the Deferred Tax Asset is contingent on future profits being available, against which the prior year's income tax losses may be recouped.

Post-implementation of the Scheme, it is expected ALF's prior year income tax losses will not be available for recoupment given the likely and expected failure of the loss recoupment tests under the Australian income tax law. In these circumstances, the associated Deferred Tax Assets on these tax losses have been de-recognised in ALF's financial accounts.

## **6.11. FURTHER INFORMATION**

ALF is subject to regular reporting and disclosure obligations under the ASX Listing Rules and as a "disclosing entity" under the Corporations Act. These require ALF to announce information that would have a material effect on the price of ALF Shares as soon as it becomes aware of that information, subject to exceptions for certain confidential information.

ALF's recent announcements are available from the ASX website [www.asx.com.au](http://www.asx.com.au). ALF will continue to make public announcements as required on these websites after the date of this Booklet.

ALF is required to prepare and lodge with ASIC and ASX both annual and half year financial statements accompanied by a statement and report from the Directors and an audit or review report. ALF also lodges quarterly activity reports with ASX.

Copies of these and other documents lodged with ASIC and ASX may be obtained from or inspected at an ASIC office and are accessible from ASX's website at [www.asx.com.au](http://www.asx.com.au). Copies of these documents will also be made available free of charge on a request in writing at any time before the Meetings to ALF's Registry.

## **7. INFORMATION ON THE WATERMARK FUND**

Information concerning the Watermark Fund is set out in the PDS which is in Annexure F to this Booklet. The PDS will be issued by the Responsible Entity. The Responsible Entity and its officers and advisers do not assume any liability for the accuracy and completeness of the information contained in the PDS.

The purpose of this Section 7 is to draw the ALF Shareholders' attention to specific sections of the PDS.

ALF Shareholders should read the PDS in full.

### **7.1. BACKGROUND OF THE WATERMARK FUND**

The Watermark Fund is an Australian unit trust registered with ASIC and is a managed investment scheme under the Corporations Act. The Watermark Fund was established in 2019. See section 6.1 of the Independent's Expert's Report for details.

### **7.2. INVESTMENT OBJECTIVE**

The Watermark Fund's objective is to deliver positive absolute returns in excess of the Fund Benchmark (being the RBA Cash Rate), with a focus on capital preservation (see section 5 of the PDS for further information).

Watermark Funds Management (as the manager of the Watermark Fund) targets a 10% gross return over each financial year or 8.7% after deduction of fixed management costs.

### **7.3. RESPONSIBLE ENTITY**

Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975), a subsidiary of EQT Holdings Limited (ABN 22 607 797 615) which is a public company listed on the Australian Securities Exchange (ASX: EQT), is the Watermark Fund's responsible entity.

### **7.4. INVESTMENT MANAGER**

The Responsible Entity has appointed Watermark Funds Management as the investment manager of the Watermark Fund. See Section 7.10 for a summary of the terms of Watermark Funds Management's appointment.

### **7.5. FUND STRUCTURE**

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

For further information on the fund structure of the Watermark Fund is detailed in section 5 of the PDS.

### **7.6. WATERMARK'S LONG/SHORT INVESTMENT STRATEGY**

Watermark's Long/Short investment strategy is described in section 5.2 of the PDS and is the same strategy currently employed by ALF.

The Watermark Fund will be managed in accordance with Watermark Fund Management's well-established investment process, using detailed fundamental analysis of companies and industries to identify mispriced securities.

## 7.7. INVESTMENT GUIDELINES AND PORTFOLIO CONSTRUCTION

The Watermark Fund will have two portfolios: a long portfolio and a short portfolio. The weighting of individual positions in each portfolio will be loosely correlated with each security's qualitative scorecard and the level of conviction around the individual investment case.

Watermark Funds Management will construct the portfolio of the Watermark Fund utilising its best individual investment ideas, with the highest conviction, while retaining a bias in favour of good, well-managed business to buy and weaker businesses to sell.

Watermark Funds Management will also look to construct a well diversified portfolio across sectors and industries and will typically hold between 40-80 positions in each of the long and short portfolios.

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

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

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

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

For further information on the investment guidelines and portfolio construction see section 5.2 of the PDS.

## 7.8. RISKS ASSOCIATED WITH THE WATERMARK FUND

There are a number of general and specific risks associated with an investment in the Watermark Fund. See section 5.2 of the PDS.

## **7.9. FEES PAYABLE BY INVESTORS IN THE WATERMARK FUND**

See section 9 of the PDS.

## **7.10. FUND MANAGEMENT AGREEMENT**

The Responsible Entity has appointed the Manager as the manager of the Watermark Fund under the Fund Management Agreement.

This agreement gives Watermark Funds Management broad powers to implement Watermark's Long/Short investment strategy (detailed in section 5.2 of the PDS) in its capacity as manager of the Watermark Fund.

The Fund Management Agreement is terminable for any reason on 30 Business Day's written notice by the Responsible Entity or immediately if Watermark Funds Management becomes insolvent, materially breaches the agreement, ceases to carry on its business. On termination of the Fund Management Agreement Watermark Funds Management would be entitled to receive accrued but unpaid management and performance fees and reimbursements incurred prior to until the effective date of termination.

A performance fee is payable to Watermark Funds Manager, as investment manager of the Watermark Fund,

Information on the fee structure of the Fund Management Agreement is detailed in section 6 of the Independent Expert's Report.

## **7.11. DISTRIBUTION POLICY**

See section 7 of the PDS.

## **7.12. WITHDRAWAL/REDEMPTIONS**

As a New Unitholder in the Watermark Fund you will be able to withdraw some or all of your investment by giving the Watermark Fund registry written notice. This process is summarised below and detailed more fully in sections 1, 3, 5.10 and 7 of the PDS, which is contained at Annexure F to this Booklet.

The Responsible Entity will ensure that all New Units withdrawn by the Nominee are paid within 5 Business Days of the Nominee's withdrawal request.

### **(a) Withdrawal windows**

Commencing from the Implementation Date, holders of New Units will have the opportunity to withdraw each month by providing a withdrawal request prior the cut off time determined by the Watermark Fund (currently 2pm on the 10<sup>th</sup> Business Day of each calendar month in order to receive the month's unit price).

### **(b) Withdrawal price**

The Withdrawal Price is the price at which New Units are withdrawn and is determined in accordance with the Fund Constitution and the PDS. In general terms, the withdrawal price will be the NAV per New Unit less any transaction costs.

During the Initial Investment Period, New Units withdrawn will be subject to the Rebated Early Withdrawal Fee.

The Responsible Entity expects that withdrawals will be processed and typically paid within 21 Business Days of the end of each calendar month, a longer period of time is permitted under the Fund Constitution.

In some circumstances withdrawals may be suspended.

(c) **Restrictions on withdrawals**

The Responsible Entity may suspend withdrawals or extend the timeframe for payment of withdrawal proceeds if it considers that it is in the best interests of investors to do so and it has taken all reasonable steps to realise sufficient assets, but for reasons outside of its control, was unable to do so.

Investors in the Watermark Fund will be provided with 30 days prior written notice of any extension of suspension of withdrawals or withdrawal rights.

(d) **Withdrawals when the Watermark Fund is not liquid**

The withdrawal process, including the calculation of the withdrawal price, described above applies only when the Watermark Fund is 'liquid' (as defined in the Corporations Act). If the Watermark Fund is no longer liquid, New Units may only be withdrawn under a withdrawal offer made to all Watermark Fund unitholders, including New Unitholders, in accordance with the Fund Constitution and the Corporations Act.

Watermark Fund unitholders (including the New Unitholders) will be notified in writing of any material changes to their withdrawal rights.

**7.13. NO OTHER MATERIAL INFORMATION**

Except as disclosed elsewhere in this Booklet or the PDS, there is no other information that is material to the making of a decision in relation to the Scheme that is within the knowledge of the Responsible Entity, as at the date of this Booklet, which has not previously been disclosed to ALF Shareholders.

## 8. PROFILE OF THE WATERMARK FUND

### 8.1. MONTHLY NET PERFORMANCE

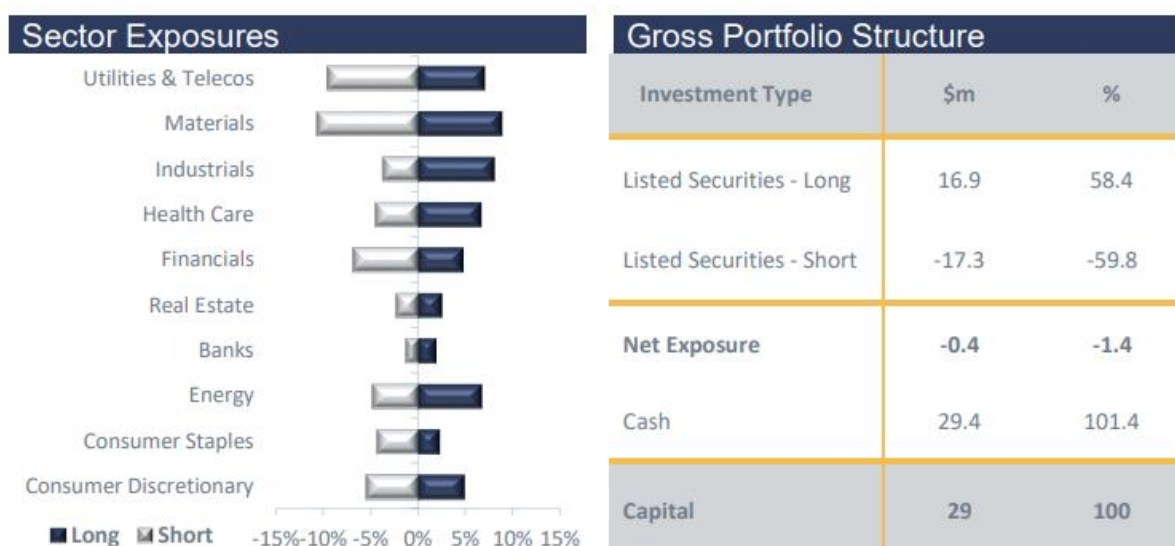
The following table illustrates the Watermark Fund's historical monthly performance as a percentage since inception in May 2019. Monthly performance shows the movement in the value of the Watermark Fund's net asset value over the period, adjusted for distributions paid and after deductions for management fees and operating costs.

| Monthly Net Performance (%) |      |       |       |      |       |       |      |      |       |      |       |       |      |
|-----------------------------|------|-------|-------|------|-------|-------|------|------|-------|------|-------|-------|------|
| Year                        | Jan  | Feb   | Mar   | Apr  | May   | Jun   | Jul  | Aug  | Sep   | Oct  | Nov   | Dec   | YTD  |
| 2019                        |      |       |       |      | -0.70 | 0.94  | 2.09 | 1.54 | -0.49 | 1.59 | -0.42 | -0.10 | 4.49 |
| 2020                        | 0.75 | -1.11 | -2.42 | 0.86 | -0.66 | -1.25 | 1.16 | 1.09 | 0.13  | 1.42 | 2.76  |       | 2.64 |

**Source:** Watermark Funds Management. Past performance is not a reliable indicator of future performance.

### 8.2. SNAPSHOT OF INVESTMENT PORTFOLIO

The following tables summarise sector exposures within the Fund Portfolio and the gross portfolio structure as at 30 November 2020.



**Source:** Watermark Funds Management.

In the Gross Portfolio Structure, 'Long' indicates those securities the Watermark Fund holds a positive amount of, either physically or via a derivative, in the expectation that their value will appreciate. 'Short' indicates those securities the Watermark Fund holds a negative amount of, either physically or via a derivative, in the expectation that their value will decrease.

Neither of the above sector exposures nor the Portfolio structure reflects Watermark Fund's current portfolio of investments as the Watermark Fund has continued to actively trade in securities since 30 November 2020. The above tables are provided as examples only – it is not to be taken as an example of the optimal portfolio allocation, now or in the future.

Below is the top positions within the Watermark Fund long and short portfolios as at 11 December 2020 and their relative sizes within those portfolios (shown as a percentage of the Watermark Fund's gross assets (based on the closing price of securities on that date).

| Top longs                   | Index   | % of Gross Assets | Top shorts                   | Index       | % of Gross Assets |
|-----------------------------|---------|-------------------|------------------------------|-------------|-------------------|
| CSL Ltd                     | ASX 50  | 2.40%             | SPI 200 FUTURES Dec20        | S&P/ASX 200 | -5.10%            |
| QBE Insurance Group Ltd     | ASX 50  | 2.40%             | Woodside Petroleum Ltd       | ASX 50      | -3.50%            |
| James Hardie Industries PLC | ASX 50  | 2.00%             | ASX Ltd                      | ASX 50      | -3.30%            |
| Santos Ltd                  | ASX 50  | 2.00%             | Rio Tinto Ltd                | ASX 50      | -3.30%            |
| Oil Search Ltd              | ASX 50  | 1.70%             | Orica Ltd                    | ASX 50      | -2.20%            |
| Healius Ltd                 | ASX 200 | 1.60%             | Boral Ltd                    | ASX 100     | -2.10%            |
| Telstra Corp Ltd            | ASX 50  | 1.60%             | Metcash Ltd                  | ASX 200     | -2.00%            |
| Costa Group Holdings Ltd    | ASX 200 | 1.20%             | Brambles Ltd                 | ASX 50      | -1.80%            |
| Orocobre Ltd                | ASX 300 | 1.20%             | Magellan Financial Group Ltd | ASX 100     | -1.70%            |
| Downer EDI Ltd              | ASX 100 | 1.20%             | APA Group                    | ASX 50      | -1.70%            |

**Source:** Watermark Funds Management. **Note:** The above table does not reflect the current portfolio of investments as the Watermark Fund has continued to actively trade in securities since 11 December 2020. It is provided as an example only – it is not to be taken as an example of the optimal portfolio allocation, now or in the future.

### 8.3. POST TRANSFER OF ALF ASSETS

If the Scheme is implemented, the ALF Assets will be transferred to the Responsible Entity of the Watermark Fund on the Implementation Date.

The ALF Assets are assets with an aggregate value equal to ALF's post-tax NTA on the Implementation Date calculated, in accordance with the Corporations Act and Australian Accounting Standards, after payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any).

The ALF Assets transferred to the Responsible Entity will be invested in accordance with the Watermark's Long/Short investment strategy.

### 8.4. UNAUDITED PRO FORMA FINANCIAL INFORMATION FOR NEW UNITS

The NAV of the New Units on the Implementation Date will be determined by ALF's post-tax NTA on the Implementation Date (after payment of the fully franked cash Dividend and excluding the Retention Amount and any cash required to fund outstanding Transaction Costs (if any)).

NAV of the New Units on the Implementation Date will be impacted by:

- the quantum of the fully franked cash Dividend determined by the Board will be paid on each ALF Share on the Implementation Date;
- the expenses incurred in the ordinary operation of ALF between 1 December 2020 and the Implementation Date; and
- payment of costs incurred in relation to the Scheme or the winding up of up to the Implementation Date.

ALF's last published audited statement of financial position on 30 June 2020 showed that ALF



held net assets on its balance sheet of \$216,874,931 (see Section 6.9). While ALF's unaudited NTA as at 30 November 2020, being the latest NTA released on the ASX prior to this Booklet being lodged with ASIC in draft, showed net assets of \$224,819,471 as at 30 November 2020.

The pro form balance sheet shows the NAV of the New Units, applying the adjustments identified in each of the Notes below to ALF's unaudited statement of financial position as at 30 November 2020.

|   |        | Pre Adjustments<br>(\$) | Post Adjustments<br>(\$) |
|---|--------|-------------------------|--------------------------|
| <b>ASSETS</b>   |        |                         |                          |
| <b>Current assets</b>                                 |        |                         |                          |
| Cash and cash equivalents                             |        | 222,972,890             | 222,972,890              |
| Trade and other receivables                           |        | 159,939                 | 159,939                  |
| Financial assets at fair value through profit or loss |        | 312,152                 | 312,152                  |
| Other assets  |        | 56,689                  | 56,689                   |
| <b>Total current assets</b>                           |        | <b>223,501,670</b>      | <b>223,501,670</b>       |
| <b>Non-current assets</b>                             |        |                         |                          |
| Deferred Tax Assets                                   | Note 1 | 16,848,142              | -                        |
| <b>Total assets</b>                                   |        | <b>240,349,812</b>      | <b>223,501,670</b>       |
| <b>LIABILITIES</b>                                    |        |                         |                          |
| <b>Current liabilities</b>                            |        |                         |                          |
| Trade and other payables                              |        | 11,404,467              | 11,404,467               |
| Current tax liability                                 |        | 4,125,874               | 3,900,429                |
| Fully franked cash dividend payable                   | Note 2 | -                       | 5,762,211                |
| Ordinary Expenses                                     | Note 3 | -                       | 751,484                  |
| Early termination fee                                 | Note 4 |                         | 2,500,000                |
| Transaction costs                                     | Note 5 | -                       | 990,000                  |
| Retention Amount                                      | Note 6 | -                       | 100,000                  |
| <b>Total liabilities</b>                              |        | <b>15,530,341</b>       | <b>25,408,591</b>        |
| <b>Net assets of New Units</b>                        |        | <b>224,819,471</b>      | <b>198,093,079</b>       |

**Note 1:** See Section 6.10 for the accounting treatment of the Deferred Tax Assets post-implementation of the Scheme. Movement in ALF's accumulated loss position arises from the write down of the Deferred Tax Assets.

**Note 2:** Assumed a 3 cent fully franked cash dividend per ALF Share will be paid to Scheme Participants. The fully franked cash Dividend amount determined by the Board may be larger than 3 cents.

**Note 3:** ALF would ordinarily incur the following operating expenses in the period from 1 December 2020 to the Implementation Date:

| Item                | Expense<br>\$ | Notes  |
|---------------------|---------------|--|
| Insurance           | 14,988        | Insurance costs relate to a contractual obligation to provide run-off cover after implementation of the Scheme and the cost of premium may vary.                           |
| Management fees     | 471,395       | Noting that if the Scheme becomes Effective, during the Initial Investment Period Watermark Funds Management has agreed to waive fees during the Initial Investment Period |
| Directors fees      | 48,750        |  |
| Brokerage fees      | 119,843       |  |
| Accounting fees     | 27,390        |  |
| Share registry fees | 16,586        |  |
| Audit & Tax         | 33,070        | Ordinary monthly tax expense plus audit fees for FY20  |
| Other Expenses      | 19,462        | Company Secretary & ASX Fees   |
| Total               | 751,484       |  |

**Note 4:** Prior to the Implementation Date, an amount of \$2,500,000 is payable by ALF to the Manager for the early termination of the ALF Management Agreement.

**Note 5:** Transaction Costs associated with the Scheme:

| Item                            | Expense<br>\$ |
|---------------------------------|---------------|
| Consulting Fees                 | 60,000        |
| Legal Fees                      | 275,000       |
| Counsel fees                    | 50,000        |
| Independent experts report      | 45,000        |
| Court filing fees and ASIC fees | 20,000        |
| Printing fees                   | 90,000        |
| Share registry fees             | 100,000       |
| Tax and accounting              | 100,000       |
| Insurance fees                  | 250,000       |
| Total                           | 990,000       |

**Note 6:** Retention Amount provides for estimated liabilities to be incurred by ALF after the Implementation Date. These are the costs to be incurred in winding up ALF. If any franking deficit tax is attributable to the Dividend amount paid on the Implementation Date, the Retention Amount would include cash to fund this tax. The Independent Directors do not expect any such tax will be attributable to the Dividend. See Section 6.7 for details.

| Item                 | Expense<br>\$ |
|----------------------|---------------|
| Accounting and audit | 70,000        |

| Item                            | Expense<br>\$ |
|---------------------------------|---------------|
| De-registration or liquidation) | 10,000        |
| Filing fees                     | 20,000        |
| Total                           | 100,000       |

## 8.5. NET ASSET VALUE OF THE NEW UNITS

Once the Scheme has been implemented, New Units can be withdrawn by Scheme Participants (subject to the KYC Information requirements, see Section 9.3).

The quantum of withdrawals will not impact the NAV per New Unit, it will only impact the aggregate NAV of New Units at any given time.

Based on the pro-forma balance sheet above, the NAV per New Unit on the Implementation Date will be \$1.031.

As noted above, estimated NAV per New Unit on the Implementation Date will be impacted by:

- the quantum of the fully franked cash Dividend determined by the Board will be paid on each ALF Share on the Implementation Date;
- the expenses incurred in the ordinary operation of ALF between 1 December 2020 and the Implementation Date; and
- payment of costs incurred in relation to the Scheme or the winding up of up to the Implementation Date.

If the Board determines to pay a fully franked cash Dividend of more than 3 cents on the Implementation Date, the NAV per Unit will decrease. The aggregate value of the fully franked cash Dividend and the Capital Reduction/NAV per Unit will not change and ALF Shareholders will receive the same value.

ALF Shareholders who in their capacity as New Unitholders withdraw their New Units during the Initial Investment Period will receive NAV per New Unit less the Buy/Sell Spread and the Rebated Early Withdrawal Fee. See the PDS at Annexure F to this Booklet for further details.

## 8.6. COMPARISON OF FEES AND OPERATING COSTS

Pursuant with the ALF Management Agreement Watermark Funds Management (as the Manager of ALF) is entitled to a management fee of 1% p.a. (plus GST) of the value of the ALF gross assets (payable monthly in arrears and calculated on the last Business Day of each month).

Pursuant to the Fund Management Agreement during the Initial Investment Period, Watermark Funds Management (as the manager of the Watermark Fund) will not be paid any management fees in respect of the New Units.

After the Initial Investment Period, Watermark Funds Management is entitled to receive a monthly management fee in respect of the New Units of 1.0% of NAV of the New Units p.a. (ex GST), payable monthly in arrears and calculated on the last Business Day of each month.

Watermark Funds Management and the Responsible Entity have also agreed that after the Initial Investment Period New Unit management expenses in respect of the New Units will be capped at 0.3% of the NAV of the New Units p.a.

This means that the MER of the New Units, being the Management Fees and management expenses in respect of the New Units, will be capped at 1.3% of the NAV of the New Units.

To illustrate, the relative MER of ALF in respect of the financial year ended 30 June 2020 (FY2020) and in respect of the financial year ended 30 June 2019 (FY2019) verses the capped MER of the New Units following the Initial Investment Period are set out below.

| Historical MER of ALF <sup>3</sup> |                    | MER New Units                     |
|------------------------------------|--------------------|-----------------------------------|
| FY2020                             | FY2019             | Post implementation of the Scheme |
| 1.53% <sup>1</sup>                 | 1.27% <sup>2</sup> | Up to 1.30%                       |

1. Based on Management fees, Accounting fees, Share registry, fees, Tax fees, Directors' fees, ASX fees, Audit fees and other expenses totalling \$3,543,118 incurred by ALF in the financial year ended 30 June 2020, detailed in Section 6.9(c) under the heading "Expenses".
2. Based on Management fees, Accounting fees, Share registry, fees, Tax fees, Directors' fees, ASX fees, Audit fees and other expenses totalling \$3,669,155 incurred by ALF in the financial year ended 30 June 2019, detailed in Section 6.9(c) under the heading "Expenses".
3. Assumes 192,559,158 ALF Shares on issue.

## 9. INFORMATION ABOUT WATERMARK FUND UNITS

This Section provides a comparative overview of the New Units to be issued under the Scheme and the existing units in the Watermark Fund, as well as the rights attaching to your ALF Shares against those attaching to the New Units that will be distributed if the Scheme is implemented. This Section should be read subject to, and in conjunction with, the PDS, the Fund Constitution and the rest of this Booklet.

### 9.1. COMPARISON BETWEEN NEW UNITS AND EXISTING UNITS IN THE WATERMARK FUND

There are currently 26,644,755.07 Watermark Fund units on issue held by approximately 1,047 unitholders.

If the Scheme is approved and implemented, the Responsible Entity will issue the New Units which ALF will distribute as Scheme Consideration in accordance with the terms of the Scheme.

New Units will form a new class of units. The rights and liabilities attaching to New Units and the class of units currently on issue in the Watermark Fund will be the same except only New Units benefit from the management fee holiday during the Initial Investment Period and incur the Rebated Early Withdrawal Fee if withdrawn during that period.

If the Scheme is approved and implemented, the structure of the units on issue in the Watermark Fund immediately following the Implementation Date is summarised in column two of the below table.

As the New Units distributed as Scheme Consideration will form part of the expanded total number of units on issue immediately following the Implementation Date, ALF Shareholders receiving New Units as Scheme Consideration will, in their future capacity as unitholders, have a diluted proportional percentage interest in the Fund compared to their current proportional shareholding interest in ALF.

The extent of this dilution will be impacted by the level of withdrawals (redemptions) after the Implementation Date. By way of illustration, columns 3 to 5 in the below table sets out the capital structure of the Watermark Fund following implementation of the Scheme if 10%, 35% and 50% of the New Units are redeemed (but no other units are issued or redeemed) after the Implementation Date:

| Class of units     | Number of units on issue at different points in time |                                  |                                  |                                  |
|--------------------|--|----------------------------------|----------------------------------|----------------------------------|
|                    | On Implementation                                    | If 10% of New Units are redeemed | If 35% of New Units are redeemed | If 50% of New Units are redeemed |
| Ordinary units     | 26,644,755.07  | 26,644,755.07                    | 26,644,755.07                    | 26,644,755.07                    |
| New Units          | 192,559,158  | 173,303,242                      | 125,163,452                      | 96,279,579                       |
| <b>Total units</b> | <b>219,203,913.07</b>                                | <b>199,947,997.07</b>            | <b>151,808,207.07</b>            | <b>122,924,334.07</b>            |

### 9.2. COMPARISON OF RIGHTS ATTACHING TO SHARES AND UNITS

Below is a comparison, by way of summary, of rights and liabilities of Watermark Fund members, and ALF Shareholders.

These rights are found under the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules, the Fund Constitution (in the case of Watermark Fund members) and the ALF Constitution (in the case of ALF Shareholders).

This comparison does not purport to be exhaustive or constitute a definitive statement of all the differences between, or the rights and liabilities attaching to, New Units and ALF Shares. Full details of the rights attaching to Watermark Fund units and the New Units are in the Fund

Constitution set out in Annexure G in this Booklet, which can also be obtained through ASIC or from the Responsible Entity.

|  | Shares   | Watermark Fund members   |
|--|--|--|
| <b>Source of rights</b>                | Shareholder rights are found under the ALF Constitution and the Corporations Act. The ALF Constitution is also subject to the ASX Listing Rules and the ASX Settlement Operating Rules.  | Watermark Fund members rights are found under the Fund Constitution dated 18 January 2019 (as amended and varied from time to time) and the Corporations Act.  |
| <b>Voting</b>                          | <p>Resolutions are decided by a show of hands unless a poll is demanded.</p> <p>At a general meeting, every ALF Shareholder has one vote on a show of hands. On a poll, every ALF Shareholder has one vote for each ALF Share held (subject to the Share being fully paid).</p> <p>An ALF Shareholder may vote in person, by proxy, or by attorney and, in the case of a corporation, by representative.</p> | <p>Every resolution at a meeting of Watermark Fund members is decided on a show of hands, unless a poll is demanded.</p> <p>At a general meeting, each Watermark Fund members is entitled to one vote on a show of hands and, on a poll, one vote per dollar value of the person's interest in the Watermark Fund.</p> <p>A Watermark Fund members may vote in person or by proxy and in the case of a body corporate, by authorised representative.</p> |
| <b>General Meeting</b>                 | <p>Each ALF Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of ALF.</p> <p>The Corporations Act requires that ALF hold an annual general meeting at least once in a calendar year and within five months after the end of its financial year.</p>  | <p>Each Watermark Fund members is entitled to receive notice of, and to attend and vote at, general meetings of the Watermark Fund.</p> <p>There is no requirement under the Corporations Act or the Fund Constitution for the Watermark Fund to hold annual general meetings.</p>   |
| <b>Dividend / Distributions</b>        | The Directors may determine, declare or procure the payment of a dividend as and when permitted by the Corporations Act. Dividends will be paid in proportion to the amounts paid on the ALF Shares, subject to any rights or restrictions attached to any ALF Shares.   | <p>The Responsible Entity may elect to distribute to Watermark Fund members any amount (capital or income in nature) pro rata to the number of each class of unit held in the Watermark Fund held.</p> <p>Distributions will be paid pro rata to the number of New Units held.</p>   |
| <b>Issue of further Shares / units</b> | Subject to the Corporations Act and the ASX Listing Rules, the Directors may issue or allot further ALF Shares or any other form of security in ALF, or grant options over unissued shares in ALF, on such terms and conditions as they think fit.   | <p>New Units will be issued in accordance with the Scheme.</p> <p>Subject to Corporations Act, the Responsible Entity may issue new units or grant options to subscribe to units only in accordance with the provisions of the Fund Constitution.</p> <p>The Fund Constitution contains provisions, consistent with the Corporations Act, that regulate the</p>  |

|                                       | Shares  | Watermark Fund members   |
|---------------------------------------|---|--|
|                                       |   | price at which a unit may be issued.   |
| <b>Transfer of Shares / New Units</b> | <p>Shareholders may transfer Shares by a proper transfer effected in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules or as otherwise permitted by the Corporations Act, or as the Directors may otherwise approve.</p> <p>In the limited circumstances permitted under the ASX Listing Rules, ALF may require a holding lock to be applied to specified CHESS approved securities or decline to register a transfer of ALF Shares when the transfer is not in registrable form.</p> <p>The Directors may decline to register a transfer of ALF shares which are not CHESS approved securities if the ASX Listing Rules provide or would require that registration of the transfer may or should be refused.</p> <p>If the Board declines to register a transfer of ALF Shares, ALF must give the holder of those ALF Shares, or the party lodging the transfer, written notice within 5 business days of the refusal and the reason for refusal.</p> | <p>Watermark Fund members may only transfer units by a proper transfer effected in accordance with the provisions of the Fund Constitution.</p> <p>The Responsible Entity may refuse to record any transfer of New Units without giving reason for the refusal.</p>  |
| <b>Winding up</b>                     | <p>Subject to any special or preferential rights and to any restrictions attaching to any ALF Shares or classes of ALF Shares, ALF Shareholders will be entitled in a winding up to share in any surplus assets of ALF in proportion to the ALF Shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.</p>  | <p>The Responsible Entity may, in accordance with the provisions of the Fund Constitution, terminate the Watermark Fund in circumstances contemplated by the Corporations Act.</p> <p>On termination, the Responsible Entity will realise all Watermark Fund property, pay all liabilities of the Watermark Fund and distribute any net proceeds to Watermark Fund members pro rata to the number of units held.</p> |
| <b>Nature of Governing Body</b>       | <p>The Board is the governing body of ALF. The Directors are subject to duties of good faith, care and diligence which are set out in Part 2D.1 of the Corporations Act.</p>  | <p>The Responsible Entity must, in accordance with the Corporations Act, be a public company that holds an Australian Financial Service Licence authorising it to operate a managed investment scheme.</p> <p>The Responsible Entity must act in accordance with the Fund Constitution</p>   |

|                  | Shares  | Watermark Fund members  |
|------------------|---|---|
|                  |   | and Part 5C.2 of the Corporations Act.  |
| <b>Directors</b> | <p>The minimum number of Directors of ALF is three and the maximum is to be fixed by the Directors but may not be more than 10 unless ALF Shareholders pass a resolution in general meeting varying that number. The ALF Constitution and ASX Listing Rules provide for periodic compulsory retirement of Directors.</p> <p>Subject to the requirements of the Corporations Act, retiring Directors are eligible for re-election.</p>   | <p>The Responsible Entity may be replaced as responsible entity of the Watermark Fund by an ordinary Watermark Fund member's resolution in accordance with section 601FM of the Corporations Act.</p> <p>New Unitholders have no power to appoint or vote on the appointment of directors of the Responsible Entity.</p>  |
| <b>Indemnity</b> | <p>ALF, to the extent permitted by law, indemnifies each Director or other officer of ALF (and any person who has previously served in any such capacity) against any liabilities for costs and charges and expenses incurred by the person as an officer of ALF or a related body corporate of ALF.</p> <p>The indemnity includes, to the extent permitted by law, liability for legal costs incurred in defending proceedings in which judgment is given in favour of the director or officer of ALF or in which the director or officer of ALF is acquitted on a full indemnity basis.</p> | <p>The Responsible Entity is entitled to be indemnified out of the Watermark Fund property for any liability incurred by it in properly performing its duties, or exercising any of its powers in the proper performance of its duties. The Responsible Entity is not required to do anything for which it does not have a full right of indemnity out of the Watermark Fund property available for that purpose.</p> <p>The Fund Constitution limits the Responsible Entity's liability in contract, tort or otherwise to New Unitholders for any loss suffered in any way relating to the Watermark Fund except to the extent that the Corporations Act imposes such liability.</p> |
| <b>Amendment</b> | <p>The ALF Constitution can only be amended by a special resolution passed by at least three quarters of the eligible votes cast by Shareholders present and voting at a general meeting of ALF.</p> <p>At least 28 days' written notice specifying the intention to amend the ALF Constitution by special resolution must be given.</p>  | <p>Subject to the Corporations Act, the Responsible Entity may by supplemental deed, make any amendment to the Fund Constitution provided that if the modification:</p> <ul style="list-style-type: none"> <li>• changes a member's entitlement to income or capital, all affected members must consent;</li> <li>• affects the fixed and indefeasible interest that a member has in the Watermark Fund, all affected members must consent; or</li> <li>• relates to the Responsible Entity's entitlement to fees or other amounts under the Fund Constitution, the Responsible Entity consents. .</li> </ul>   |



|   | Shares  | Watermark Fund members   |
|---|---|--|
| <b>Dividend / Distribution re-investment plan</b> | The Directors may implement a dividend reinvestment plan on the terms they think fit. | The Responsible Entity may offer a distribution reinvestment facility on the terms that it thinks fit. |

### 9.3. PROVISION OF KYC INFORMATION

#### (a) Need to provide KYC Information

Scheme Participants do not need to provide KYC Information in order to receive the Scheme Consideration on the Implementation Date.

However, as the Watermark Fund is an unlisted managed investment scheme, the Responsible Entity will be required to verify the identity of ALF Shareholders in their capacity of New Unitholders after implementation of the Scheme.

In order to do so, the Responsible Entity and Boardroom Pty Limited (**Boardroom**) (as the registry service provider) will require the necessary information under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (**AML/CTF Act**) and Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (**AML/CTF**) to be collected and verified relating to each Scheme Participant in their capacity as a New Unitholder.

Not providing the KYC Information and documentation necessary for the Responsible Entity to verify your identity will result in a 'holding lock' being placed on your Scheme Consideration. Your New Units will remain subject to this holding lock until such time as the Responsible Entity has verified your identity.

For so long as your New Units remain subject to the holding lock, you will not be able to redeem your New Units and the Responsible Entity will not be able to issue you any other units in the Watermark Fund (including through reinvestment of distributions).

Accordingly, Scheme Participants (excluding Ineligible Foreign Shareholders) are encouraged to provide their KYC Information to the Responsible Entity prior to the Implementation Date.

Scheme Participants that do not wish to provide the KYC Information, can sell their ALF Shares on market prior to the Scheme becoming Effective.

#### (b) How to provide KYC Information

To facilitate the process of providing your KYC Information, the Responsible Entity has established an online verification platform.

KYC Information is to be provided by Scheme Participants or their financial advisers by completing electronic KYC Information Form at [www.olivia123.com/warf/](http://www.olivia123.com/warf/). Details of how to provide your KYC Information are available on the website.

Alternatively, ALF Shareholders can download a paper copy of the KYC Information Form from the Watermark Fund's website or request ALF send you a hardcopy of the KYC Information form.

## 10. TAXATION CONSIDERATIONS

This section provides a general overview of the Australian income taxation consequences for you if the Scheme proceeds.

The overview provided in this section does not take into account your specific circumstances and is not intended to be exhaustive, or a substitute for, or to constitute, specific taxation advice.

This section is based on Australian income tax legislation, public taxation rulings, determinations and administrative practice as at the date of this Booklet.

The application of the taxation legislation may vary according to your individual circumstances. As such, you are advised to obtain professional taxation advice that takes into account your specific circumstances before deciding how to vote in relation to the Scheme.

### 10.1. AUSTRALIAN INCOME TAX IMPLICATIONS

The following summary of income taxation matters is a general guide and does not constitute Australian income tax advice. It provides a summary of some of the Australian income tax implications of the Scheme applicable to Australian tax resident investors of ALF that hold their investment on capital account for Australian income tax purposes. This section therefore does not consider investors who either hold their New Units as trading stock or on revenue account, are not subject to Australian income tax, or are subject to the Taxation of Financial Arrangements rules under the Australian income tax law.

The summary is based on the Australian income tax law applicable as at the date of this Booklet. The Australian income tax law is subject to change, and the associated income tax treatment applicable to particular investors may differ.

We therefore strongly recommend that each investor seeks professional advice on the Australian income taxation implications of the Scheme.

#### (a) Liquidating the ALF Portfolio prior to implementation of the Scheme

The realisation or disposal of the ALF Portfolio to cash will result in an assessable gain or deductible loss for ALF, depending on the difference between the proceeds received and the assets comprising the ALF Portfolio's original cost. It is expected ALF will be predominately liquidated into cash prior to the Scheme's implementation.

#### (b) Dividends from ALF

To the extent ALF is not prevented from paying a dividend to ALF Shareholders under the Australian corporations law, ALF should be able to attach franking credits (up to the maximum amount permitted under the Australian income tax law) to any franked dividends that may be payable to ALF Shareholders.

Generally, dividend income and franking credits received by ALF Shareholders should be included in each ALF Shareholder's assessable income for their Australian income tax return. Certain additional requirements, including the 45-day holding period rule will need to be satisfied for ALF Shareholders to obtain franking credits in relation to franked dividends. The ALF Shareholder's individual circumstances (and that of ALF) will be relevant to determining whether or not the ALF Shareholder is entitled to any franking credits in respect of their share of the franked dividend (if any) from ALF. We recommend that you contact your tax adviser to consider your personal circumstances. To the extent certain Australian tax resident ALF Shareholders' income tax liability is able to be reduced to nil by franking credits received from ALF, the unapplied or excess franking credits may be refundable to them (e.g. for individuals and complying superannuation funds).

(c) **Capital Reduction**

The return of capital by ALF should reduce the ALF Shareholder's capital gains tax (**CGT**) cost base of their ALF Shares.

To the extent the return of capital amount exceeds the ALF Shareholder's CGT cost base of their ALF shares, the CGT cost base is reduced to nil and the 'excess' will result in a capital gain to the ALF Shareholder. Broadly, for eligible ALF Shareholders in this situation, such as individuals, trusts, and complying superannuation funds, the CGT discount rules may apply to reduce the discount capital gain arising (after first applying any available current and prior year capital losses) provided they have held their ALF shares for greater than 12 months.

(d) **Cancellation of ALF Shares**

The proposed cancellation of the shares in ALF will have CGT implications, which may result in a capital gain or a capital loss for each ALF Shareholder. The CGT outcome will be dependent on each ALF Shareholder's CGT cost base (in the case of a capital gain) or CGT reduced cost base (in the case of a capital loss) of their ALF Shares, which will be impacted by the return of capital above. For eligible ALF Shareholders, the CGT discount may be available to the extent of any discount capital gain arising.

(e) **Cost base of New Units received by ALF Shareholders**

For New Units received by ALF Shareholders under the Scheme, the CGT cost base of these New Units should be equal to the Scheme Participant's Capital Reduction entitlement.

(f) **Australian income tax status of the Watermark Fund**

For information regarding the Australian income tax treatment of the Watermark Fund, please refer to section 10 in the PDS at Annexure G of this Booklet.

(g) **Australian income tax treatment for Australian tax resident unitholders of the Watermark Fund**

For further information regarding the income tax treatment for Australian tax resident New Unitholders of the Watermark Fund in relation to:

- the distributions received from the Watermark Fund; and
- the sale or withdrawal of New Units by New Unitholders,

please refer to section 10 in the PDS issued concurrently with this ALF Booklet. Section 10 of the PDS includes a general summary of some of the Australian taxation issues associated with making an investment in the Watermark Fund.

As the information contained in the PDS (and this ALF Booklet) is summary and general in nature, it is recommended investors seek independent professional advice, specific to their own particular circumstances, of the Australian taxation implications of investing in the Watermark Fund.

## **11. IMPLEMENTATION OF THE SCHEME**

|   |
|---|
| If the Scheme becomes Effective, each Scheme Participant will be entitled to the Scheme Consideration. This section describes the implementation of the Scheme. |
|---|

### **11.1. PEOPLE WHO ARE AFFECTED BY THE SCHEME**

If the Scheme becomes Effective, it will bind all ALF Shareholders, including those who voted against the Scheme and those who did not vote.

### **11.2. EFFECT OF THE SCHEME BECOMING EFFECTIVE**

If the Scheme becomes Effective:

- ALF will pay the fully franked cash Dividend of not less than 3 cents per ALF Shares, such that each Scheme Participant receives their fully franked Dividend in cash on the Implementation Date;
- the ALF Assets will be transferred to the Watermark Fund and the Responsible Entity will issue to ALF as consideration such number of New Units equal to 1 New Unit for every Scheme Share on issue on the Record Date;
- ALF will undertake the Capital Reduction and each Scheme Participant will be credited with their Capital Reduction Entitlement on the Implementation Date;
- ALF will satisfy the Capital Reduction Entitlement in respect of each Scheme Participant via the in specie distribution of the New Units as the Scheme Consideration in accordance with the terms of the Scheme;
- all Scheme Shares will be cancelled and ALF will become a wholly owned subsidiary of the Manager; and
- ALF will be removed from the official list of ASX.

### **11.3. ENTITLEMENT TO THE CAPITAL REDUCTION AND NEW UNITS UNDER THE SCHEME**

#### **(a) Overview**

If the Scheme becomes Effective, ALF Shareholders registered on the ALF Register as the holder of the relevant Scheme Shares as at the Record Date will be eligible to receive a fully franked cash Dividend, a pro rata entitlement to the Capital Reduction and participate in the Scheme.

#### **(b) Dividend Entitlement**

The Dividend will be fully franked for an amount of not less than 3 cent per Scheme Share determined by the Board and announced to the market prior to the Scheme becoming Effective.

The fully franked Dividend will be paid in cash on the Implementation Date. All Scheme Participants will receive the fully franked cash Dividend, including Ineligible Foreign Shareholders.

#### **(c) Capital Reduction Entitlement**

On the Implementation Date ALF will reduce its capital by an amount equal to the value of ALF's post-tax NTA on the Implementation Date calculated after payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any).

The aggregate value of New Units issued to ALF as consideration for the transfer of the ALF Assets will be equal the Capital Reduction.

Each Scheme Participant will be credited with a Capital Reduction Entitlement calculated as follows:

$$\frac{\text{Value of Capital Reduction}}{\text{Total number of Scheme Shares}} \times \text{Number of Scheme Shares held by that Scheme Participant}$$

*Note: For each Scheme Participant, the value of their Capital Reduction Entitlement will be equal to the aggregate value of 1 New Unit for each Scheme Share held by that Scheme Participant.*

ALF will distribute the New Units in specie as the Scheme Consideration (in accordance with the Scheme provisions outlined at Sections 11.4 and 11.5 of this Booklet) and in satisfaction of each to Scheme Participant's Capital Reduction Entitlement.

The above was agreed through negotiations between ALF and the Responsible Entity.

#### **11.4. IN SPECIE DISTRIBUTION OF NEW UNITS**

On the Implementation Date (currently proposed to be 26 March 2021) ALF must distribute in specie the Scheme Consideration as follows:

- for each Ineligible Foreign Shareholder, by transferring to the Nominee that number of New Units equal to the number of Scheme Shares held by each Ineligible Foreign Shareholder on the Record Date; and
- for all other Scheme Participants, by transferring to that Scheme Participant that number of New Units equal to the number of Scheme Shares held by that Scheme Participant on the Record Date.

On the Implementation Date ALF must also procure the Scheme Participants and Nominee are entered in the Watermark Fund's register of members, as the holder of New Units transferred to them under the Scheme.

Only once these steps have occurred, will ALF cancel the Scheme Shares in accordance with the Corporations Act.

The Responsible Entity has executed a Deed Poll in favour of all Scheme Participants and ALF under which, subject to the Scheme becoming Effective, the Responsible Entity undertakes to provide the Scheme Consideration in accordance with the Scheme (a copy of the Deed Poll is set out in Schedule 3 of the Scheme Implementation Deed, which is reproduced in Annexure B to this Booklet).

Scheme Participants do not need to provide any KYC Information in order to receive the in specie distribution of the Scheme Consideration on the Implementation Date. ALF Shareholders are reminded that New Units transferred to them in accordance with the Scheme will be subject to a holding lock until such time as their KYC Information and relevant documentation has been provided to the Responsible Entity. See Section 9.3 for details.

#### **11.5. PROCESS FOR INELIGIBLE FOREIGN SHAREHOLDERS**

Ineligible Foreign Shareholders will not receive New Units under the Scheme. Instead, the New Units that would otherwise have been transferred to them will be transferred by ALF to the Nominee on the Implementation Date (**Ineligible Units**).

ALF and the Responsible Entity will procure that:

- as soon as reasonably practicable and in any event, not more than 5 Business Days after the Implementation Date, the Nominee requests to withdraw the Ineligible Units; and
- promptly after the withdrawal of each Ineligible Unit, the Nominee pays the withdrawal proceeds to the relevant Ineligible Foreign Shareholder(s) as described in Sections 1.7 and 11.5.

Payment of the withdrawal proceeds satisfies all payment obligations in respect of the Scheme Consideration in respect of their Scheme Shares being cash equal to the amount each Ineligible Foreign Shareholder would have received had they:

- received New Units under the Scheme; and
- applied to withdraw those New Units and received the withdrawal price in cash in respect of those New Units.

ALF, the Responsible Entity and the Nominee give no assurance as to the price to be received for the withdrawal of the Ineligible Units.

The withdrawal of the Ineligible Units by the Nominee will be at the risk of the Ineligible Foreign Shareholders.

Under the Scheme, each Ineligible Foreign Shareholders appoints ALF as its agent to receive any financial services guide or other notices (include any updates of those documents) that the Nominee is required to provide to Ineligible Foreign Shareholders under the Corporations Act.

ALF have determined that the votes cast on the Scheme by ALF Shareholders whose registered address is outside Australia (including its external territories) and New Zealand will be 'tagged' for the purposes of identification at the Scheme Meeting. If the Scheme is approved by the requisite majorities at the Scheme Meeting, the 'tagged' votes by ALF Shareholders whose registered address is outside Australia (including its external territories) and New Zealand will be drawn to the Court's attention at the Second Court Date.

#### **11.6. IF THE SCHEME DOES NOT PROCEED**

In the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of ALF Shareholders, the Independent Directors intend to vote (or procure the voting) of all their ALF Shares in favour of the Scheme Resolution and recommend all ALF Shareholders also vote in favour of the Resolutions at the Meetings.

However, if the Scheme is not implemented:

- ALF would not pay a fully franked cash Dividend;
- the Capital Reduction would not occur, ALF Shareholders will retain their ALF Shares and continue to collectively control ALF;
- the benefits of the Scheme will not be realised;
- ALF would remain a listed investment company;
- ALF will continue to operate under the ALF Directors and be managed by the Manager;
- Independent Director John Abernathy intends to resign from the Board;

- Mr Malcolm McComas and Mr Rob Ferguson will stand for election to the Board at the AGM;
- the rights of ALF Shareholders will remain unchanged; and
- the Transaction Costs of \$990,000 (excluding GST) in connection with the Scheme will be borne by ALF.

The ALF Directors would then consider alternatives, which may include the continuation of ALF's operations in their current form, other restructuring and capital management initiatives, or a wind-up of ALF.

#### **11.7. ISSUE OF FULLY PAID ORDINARY SHARE TO THE MANAGER**

Immediately following completion of the Capital Reduction ALF will issue a single fully paid ordinary share with an issue price of \$1.00 to the Manager. As a result of this share issue ALF will become a wholly owned subsidiary of the Manager from the Implementation Date.

#### **11.8. STEPS IN IMPLEMENTING THE SCHEME**

ALF and the Responsible Entity have executed the Scheme Implementation Deed under which ALF agreed to propose the Scheme to ALF Shareholders. A copy of the Scheme Implementation Deed and Scheme is reproduced in Annexure B and C of this Booklet respectively.

The Responsible Entity has executed the Deed Poll in favour of Scheme Participants and ALF under which the Responsible Entity as responsible entity of the Watermark Fund covenants to perform certain obligations imposed on it under the Scheme Implementation Deed and the Scheme, including providing to each Scheme Participant the Scheme Consideration to which the Scheme Participant is entitled under the terms of the Scheme. A copy of the Deed Poll is set out in Schedule 3 of the Scheme Implementation Deed, which is reproduced in Annexure B to this Booklet.

The Court has ordered that ALF convene the Scheme Meeting scheduled to be held at 11.00am (Sydney time) on 8 March 2021 for the purpose of ALF Shareholders voting on the Scheme Resolution. As disclosed earlier in this Booklet, the Annual General Meeting will be convened immediately after the Scheme Meeting.

The order of the Court to convene the Scheme Meeting is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

#### **11.9. EFFECT OF COURT APPROVAL**

Each ALF Shareholder has the right to appear at Court at the application by ALF for orders approving the Scheme. The Court has an overriding discretion whether or not to approve the Scheme, even if the Scheme is approved by the requisite majorities at the Scheme Meeting.

If Court orders approving the Scheme are obtained, ALF and the Responsible Entity have agreed that they will take, or procure the taking of, the steps required for the Scheme to be implemented, including:

- ALF will lodge with ASIC an office copy of the Court orders approving the Scheme under sections 411(10) and 413(1) of the Corporations Act. The Scheme will become Effective on the date on which an office copy of the Court orders is lodged with ASIC. It is expected that this will occur on or about 17 March 2021.
- Once the Scheme becomes Effective:

- no dealings in ALF Shares will be permitted after the Effective Date, although the process to register dealings that occurred on or before the Effective Date will continue until 7.00pm on the Record Date, which is expected to be 22 March 2021;
- ALF and the Responsible Entity will become bound to implement the Scheme in accordance with the terms of the Scheme Implementation Deed, the Scheme and the Deed Poll; and
- Scheme Participants will be bound by, and have the benefit under, the Scheme.

#### **11.10. SCHEME CONDITIONS**

If the Scheme Conditions referred to below are not satisfied or, where applicable, waived in accordance with the Scheme Implementation Deed, the Scheme will not become Effective. Implementation of the Scheme is subject to the satisfaction or waiver of a number of conditions precedents including:

- **Scheme Meeting approval:** ALF Shareholders approve to the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act;
- **General Meeting approval:** ALF Shareholders approve both the Capital Reduction Resolution and the Early Termination Fee Resolution at the Annual General Meeting by the requisite majorities under the Corporations Act;
- **Court approval:** the Court approves the Scheme in accordance with sections 411(4)(b) and 413 of the Corporations Act;
- **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Scheme from being implemented is in effect at 8.00am on the Second Court Date;
- **No breach of ALF warranty:** none of the ALF warranties is or has become false, misleading or incorrect in a material respect on or before 8.00am on the Second Court Date;
- **No breach of Responsible Entity warranty:** none of the Responsible Entity warranties is or has become false, misleading or incorrect in a material respect on or before 8.00am on the Second Court Date; and
- **Independent Expert:** the Independent Expert issues a report which concludes that the Scheme is in the best interests of ALF Shareholders before the time when the Booklet is registered with ASIC, and the Independent Expert has not publicly withdrawn or qualified this conclusion before 8.00am on the Second Court Date.

#### **11.11. STATUS OF SCHEME CONDITIONS**

As at the date of this Booklet, ALF and the Responsible Entity is not aware of any circumstances which would cause the Scheme Conditions not to be satisfied or (if applicable) waived.

An update of the status of the Scheme Conditions will be provided at the Meetings.

#### **11.12. EXCLUSIVITY ARRANGEMENT**

Under the Scheme Implementation Deed ALF has agreed to neither directly or indirectly:

- solicit, invite, encourage or initiate any enquiries, negotiations or discussions; or



- communicate any intention to do any of these things,

with a view to obtaining any offer, proposal or expression of interest from any person in relation to a competing transaction.

The above restriction does not apply to the extent that it restricts ALF or the ALF Independent Board Committee from taking or refusing to take any action with respect to a Superior Competing Transaction (which was not solicited, invited, encouraged or initiated by ALF). For further information regarding the exclusivity arrangement see section 4.11 of the Scheme Implementation Deed set out at Annexure B.

### **11.13. WARRANTIES BY SCHEME PARTICIPANTS**

The Scheme provides that each Scheme Participant is deemed to have warranted to the Watermark Fund that:

- they agree and acknowledge that the Scheme binds ALF and all Scheme Participants (including those who do not attend the Scheme Meeting or those who do not vote, or vote against this Scheme, at the Scheme Meeting); and
- they have no existing right to be issued any ALF Shares, any securities convertible into ALF Shares (or which carry a right to be issued or transferred any ALF Shares), any convertible notes issued by ALF, and/or any other ALF securities.

### **11.14. TERMINATION OF THE SCHEME**

The Scheme Implementation Deed can be terminated by either ALF or the Responsible Entity if a Scheme Condition is not satisfied by 8.00am on the Second Court Date or at any time prior to the Effective Date where the other party is in material breach of the agreement and/or a Court or Government Agency has taken action to restrain or prohibit the Scheme.

As at the date of this Booklet, ALF and the Responsible Entity are not aware of any reason that the Scheme Implementation Deed would be terminated. These termination rights are set out in full in clause 9 of the Scheme Implementation Deed.

By way of summary, the Scheme Implementation Deed can be terminated by either ALF or the Responsible Entity if:

- either party is in material breach of the Scheme Implementation Deed;
- the terminating party has given written notice to the other at any time before 5.00pm on the day before the Second Court Date, setting out the relevant circumstances and stating an intention to terminate; and
- the relevant circumstances continue to exist 10 Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date) from the time the notice is given.

ALF may terminate the Scheme Implementation Deed if:

- at any time before 8.00am on the Second Court Date, a majority of the Independent Directors have changed, withdrawn or modified their recommendation that ALF Shareholders vote in favour of the Scheme at the Scheme Meeting; or
- the Independent Expert concludes that the Scheme is not in the best interests of ALF Shareholders, or adversely changes its previously given opinion in the Independent Expert's Report (or any update or variation to that report) that the Scheme is in the best interests of ALF Shareholders.

The Scheme Implementation Deed may also be terminated if:

- a Scheme Condition is not satisfied or has become incapable of being satisfied; and
- ALF and the Responsible Entity are unable to reach agreement about the Scheme Condition under clause 3.4(a) of the Scheme Implementation Deed within 5 Business Days.

The Scheme Implementation Deed may also be terminated if a Court or other Government Agency has issued a final or non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme.

The Scheme Implementation Deed may also be terminated if mutually agreed to in writing by ALF and the Responsible Entity.

#### **11.15. DETERMINATION OF SCHEME PARTICIPANTS**

##### **(a) Dealings on or before the Record Date**

For the purpose of calculating entitlements under the Scheme, any dealing in ALF Shares will only be recognised if:

- in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Share Register as the holder of the relevant ALF Shares on the Record Date; and
- in all other cases, registrable transfer or transmission applications or valid requests in respect of other alterations in respect of those dealings are received on or before the Record Date at the Registry.

##### **(b) Dealings after the Record Date**

For the purposes of determining the entitlement to Scheme Consideration, ALF will, until the Scheme Consideration has been provided, maintain the Share Register in its form as at the Record Date. The Share Register in this form will solely determine entitlements to the Scheme Consideration. From the Record Date:

- all statements of holding in respect of ALF Shares cease to have effect as documents of title in respect of such ALF Shares; and
- each entry on the Share Register will cease to be of any effect except as evidence of entitlement to Scheme Consideration in respect of the ALF Shares relating to that entry.

#### **11.16. DELISTING ALF**

On a date after the Implementation Date, ALF will apply:

- for termination of the official quotation of ALF Shares on ASX; and
- to have itself removed from the official list of ASX.

## **12. ADDITIONAL INFORMATION**

This Section 12 provides you with additional information required for the purposes of section 412(1) of the Corporations Act.

## **12.1. EQUITY INTERESTS OF ALF DIRECTORS**

### **(a) Interests in ALF Shares**

As at the date of this Booklet, the Directors and their related parties held the following equity interests in ALF:

| <b>Director</b>         | <b>Position</b>                    | <b>ALF Shares</b> | <b>Percentage holding</b> |
|-------------------------|------------------------------------|-------------------|---------------------------|
| <b>Justin Braitling</b> | Non-independent Chair              | 4,195,367         | 2.18%                     |
| <b>Geoff Wilson AO</b>  | Non-executive Director             | 1,328,847         | 0.69%                     |
| <b>John Abernethy</b>   | Independent non-executive Director | 10,000            | <0.01%                    |
| <b>Julian Gosse</b>     | Independent non-executive Director | 0                 | -                         |

### **(b) Interests in units in the Watermark Fund**

As at the date of this Booklet, there are no New Units on issue in the Watermark Fund. New Units will be issued to ALF on the Implementation Date.

As at the date of this Booklet, Justin Braitling and his related parties held a relevant interest in 3,688,938.71 ordinary units in the Watermark Fund. None of the remaining Directors, nor their related parties hold a relevant interest in ordinary units in the Watermark Fund as at the date of this Booklet.

## **12.2. EQUITY INTERESTS OF EQUITY TRUSTEES LIMITED**

As at the date of this Booklet, neither Equity Trustees Limited nor its directors held a relevant interest in ALF Shares or any units in the Watermark Fund.

## **12.3. AGREEMENTS OR ARRANGEMENTS WITH ALF DIRECTORS**

Justin Braitling, as beneficial shareholder and sole director of the Manager indirectly benefits from all fees paid to Watermark Funds Management including by ALF and by the Responsible Entity.

Under an investment services agreement, Watermark Funds Management Pty Ltd pays 25% of all management and performance fees received from ALF to Boutique Asset Management Pty Limited. Boutique Asset Management Pty Limited is 80% owned by entities associated with Geoff Wilson AO, who indirectly benefits from fees paid by ALF to the Manager (including the Early Termination Fee). Mr Geoff Wilson AO has no benefit from or interest in fees paid to the Manager by the Responsible Entity.

The key terms of the ALF Management Agreement are summarised at Section 6.5. This summary includes the management and performance fees payable by ALF to the Manager under the ALF Management Agreement. Details of fees payable by the Responsible Entity to the Manager under the Fund Management Agreement are summarised at section 9 of the PDS.

## **12.4. DIRECTORS' INTERESTS IN AGREEMENTS CONNECTED WITH OR CONDITIONAL ON THE SCHEME**

### **(a) Early Termination Fee**

ALF and Watermark Funds Management (in its capacity as the Manager) have agreed under the Scheme Implementation Deed that, subject to the Scheme becoming Effective, the ALF Management Agreement will be terminated with effect from the Implementation Date.

Through negotiations between ALF (represented by its Independent Board Committee) and Watermark Funds Management in its capacity as the Manager, it has been agreed that ALF will

pay to Watermark Funds Management the Early Termination Fee, being a flat payment of \$2.5 million.

Information regarding the Early Termination Fee, including all material information for ALF Shareholders to consider in voting on the Early Termination Fee Resolution, is contained at Sections 3.5 and 3.6 of this Booklet.

**(b) Rebated Early Withdrawal Fee**

If the Scheme becomes Effective, each New Unit withdrawn during the Initial Investment Period will incur the Rebated Early Withdrawal Fee.

The Rebated Early Withdrawal Fee will be paid by the withdrawing New Unitholder (in the withdrawal price) and rebated by the Responsible Entity to Watermark Funds Management (in its capacity as manager of the Watermark Fund).

ALF Shareholders are reminded that during the Initial Investment Period the Manager has agreed to waive and no management fees will be charged, or paid to the Manager, on New Units transferred to ALF Shareholders under the Scheme. The Manager has also agreed to cap expenses that may be charge on the New Units following the Initial Investment Period.

Information regarding the Rebated Early Withdrawal Fee and management fee waiver, is contained at Sections 3.5 and 3.6 of this Booklet. See also the PDS (section 9), which is Appendix F to this Booklet for further details.

**(c) Other**

ALF Shareholders should also note that as ALF Directors have direct and indirect interests in ALF Shares (refer to Section 12.1(a) above) they will receive the Scheme Consideration for ALF Shares which they hold on the Record Date.

ALF Shareholders are also reminded that, as explained more fully in Section 11.2, following Implementation Date ALF will be a wholly owned subsidiary of Watermark Funds Management. At the time ALF is acquired by the Manager, ALF will have no net assets.

**(d) No retirement benefits to ALF Directors**

No payment or other benefit is proposed to be made or given in connection with the Scheme to any Director or other officer of ALF, or of any related body corporate of ALF, as compensation for loss of, or as consideration for, or in connection with, his or her retirement from office in ALF or in any related body corporate of ALF, other than any payments or benefits arising from any applicable redundancy entitlements.

ALF does not have any executive officers or other employees.

**12.5. MATERIAL CHANGES TO THE FINANCIAL POSITION OF ALF**

To the knowledge of the Directors, the financial position of ALF has not materially changed since 30 June 2020, as reported in ALF's annual report for the year ended 30 June 2020 released on the ASX on 30 September 2020, other than:

- the accumulation of profits in the ordinary course of trading and other adjustments to ALF's financial position as disclosed in the pro forma financial information at Section 8.4 of this Booklet<sup>1</sup>; and
- as disclosed by ALF to ASX on 13 November 2020 where the Directors announced their intention to impair the Deferred Tax Assets of ALF. Treatment of the Deferred Tax

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<sup>1</sup> \$6,465,678.00 has been transferred to ALF's profit reserve to 30 November 2020.

Assets is detailed at Section 6.10 of this Booklet.

A copy of the ALF annual report for the financial year ending 30 June 2020 is available on ALF's website.

## **12.6. MATERIAL AGREEMENTS FOR ALF**

See Section 6.5 for a full summary of the ALF Management Agreement.

## **12.7. CONSENTS AND DISCLAIMERS OF ADVISERS**

Each of the parties named in this Section 12 as consenting parties:

- has given and has not, before lodgement of this Booklet with ASIC, withdrawn its written consent to be named in this Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Booklet with ASIC, withdrawn its written consent to the inclusion of their respective statements and reports (where applicable) noted next to their names in this Section 12.7, and the references to those statements and reports in the form and context in which they are included in this Booklet;
- has not authorised or caused the issue of this Booklet;
- does not make, or purport to make, any statement in this Booklet other than those statements referred to in this Section 12.7 in respect of that person's name (and as consented to by that person); and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any statements in or omissions from this Booklet, other than a reference to its names and the statements (if any) included in this Booklet with the consent of that party as specified in this Section 12.

| <b>Role</b>                 | <b>Consenting Party</b>   | <b>Statements</b>   |
|-----------------------------|---|---|
| Responsible Entity          | Equity Trustees Limited as responsible entity of the Watermark Fund | Responsible Entity Information  |
| Manager                     | Watermark Funds Management Pty Limited                              | Watermark Information   |
| Registry                    | Boardroom Pty Limited   | N/A   |
| Australian legal adviser    | Mont Lawyers Pty Limited  | N/A   |
| Australian taxation adviser | Pitcher Partners  | Australian taxation considerations in Section 10.   |
| Independent Expert          | Titan Partners  | Independent Expert's Report in Annexure A and to the references to the Independent Expert's Report in this Booklet. |

## **12.8. DISCLOSURE OF FEES AND BENEFITS RECEIVED BY CERTAIN PERSONS**

No amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given for services provided by any person referred to in Section 12.7 in connection with the promotion of ALF or the transfer of the New Units under the Scheme.

The persons named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet are those persons listed in Section 12.7.

## **12.9. DOCUMENTS AVAILABLE**

An electronic version of this Booklet including the Independent Expert's Report and the Scheme Implementation Deed can be viewed and downloaded online on ASX's website at [www.asx.com.au](http://www.asx.com.au). Further information about the Watermark Fund is available at [www.wfunds.com.au](http://www.wfunds.com.au).

## **12.10. NO UNACCEPTABLE CIRCUMSTANCES**

The ALF Directors believe that the Scheme does not involve any circumstances in relation to the affairs of ALF that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

## **12.11. OTHER MATERIAL INFORMATION**

Except as set out in this Booklet, there is no other information material to the making of a decision in relation to the Scheme being information that is within the knowledge of any of the Directors, or any director of any related body corporate of ALF, which has not previously been disclosed to ALF Shareholders.

## **12.12. SUPPLEMENTARY INFORMATION**

ALF will issue a supplementary document to this Booklet if it becomes aware of any of the following between the date of lodgement of this Booklet for registration with ASIC and the Effective Date:

- a material statement in this Booklet is or becomes false or misleading;
- a material omission from this Booklet;
- a significant change affecting a matter included in this Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Booklet if it had arisen before the date of lodgement of this Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, ALF may circulate and publish any supplementary document by:

- making an announcement to ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document to ALF Shareholders at their address shown on the Share Register; or
- posting the supplementary document on ALF's website,

as ALF, in its absolute discretion, considers appropriate.

## 13. GLOSSARY OF TERMS

### 13.1. DEFINITIONS

In this Booklet (including the annexures), unless the context requires otherwise:

|  |  |
|--|--|
| <b>ALF</b>                             | means Australian Leaders Fund Limited (ABN 64 106 845 970).  |
| <b>ALF Assets</b>                      | means the assets of ALF on the Implementation Date after the payment of the fully franked cash Dividend and excluding the Retention Amount and cash required to fund outstanding Transaction Costs (if any).                       |
| <b>ALF Constitution</b>                | means the constitution of ALF.   |
| <b>ALF Directors</b>                   | means the board of directors of ALF.   |
| <b>ALF Information</b>                 | means the information set out in Sections 6 and 12 of this Booklet.  |
| <b>ALF Management Agreement</b>        | means the investment management agreement between ALF and the Manager dated 11 November 2003.  |
| <b>ALF Portfolio</b>                   | means ALF's holdings predominately in cash following the liquidation of almost all its investments prior to the date of this Booklet.  |
| <b>ALF Share</b>                       | means a fully paid ordinary share in the capital of ALF.   |
| <b>ALF Shareholder</b>                 | means a person who is registered in the Share Register as the holder of an ALF Share.  |
| <b>AML/CTF Act</b>                     | means Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth).  |
| <b>Annual General Meeting</b>          | means the FY2020 annual general meeting of ALF at which ALF Shareholders will vote on the Capital Reduction Resolution and the Early Termination Fee Resolution, required to carry into effect the matters set out in the Booklet. |
| <b>ASIC</b>                            | means the Australian Securities and Investments Commission.  |
| <b>ASX</b>                             | means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.  |
| <b>ASX Listing Rules</b>               | means the listing rules of ASX.  |
| <b>ASX Settlement Operating Rules</b>  | means the settlement operating rules of ASX.   |
| <b>Australian Accounting Standards</b> | means the accounting standards promulgated by the Australian Accounting Standards Board.   |
| <b>Board</b>                           | means the board of ALF.  |
| <b>Booklet</b>                         | means this document.   |

|  |   |
|--|---|
| <b>Business Day</b>                      | means a weekday on which trading banks are open for business in Sydney, Australia, excluding any Saturday, Sunday or public holiday.  |
| <b>Capital Reduction</b>                 | means, subject to ALF Shareholder approval under section 256C(1) of the Corporations Act, the capital reduction to be undertaken as part of the Scheme pursuant to section 256B(1) of the Corporations Act.       |
| <b>Capital Reduction Entitlement</b>     | means a pro rata entitlement to the Capital Reduction based on the number of Scheme Shares held on the Implementation Date.   |
| <b>Capital Reduction Resolution</b>      | means the resolution to approve the Capital Reduction to be put to ALF Shareholders at the Annual General Meeting.  |
| <b>Customer Identification Procedure</b> | Means the applicable customer identification procedure (as defined in the AML/CTF Act).   |
| <b>CHES</b>                              | means the Clearing House Electronic Subregister System for the electronic transfer of securities and other financial products operated by ASX Settlement Pty Ltd (ACN 008 504 532).                               |
| <b>Corporations Act</b>                  | means the Corporations Act 2001 (Cth).  |
| <b>Corporations Regulations</b>          | means the Corporations Regulations 2001 (Cth).  |
| <b>Court</b>                             | means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed to in writing by ALF and the Responsible Entity.   |
| <b>Deed Poll</b>                         | means the deed poll by the Responsible Entity in favour of the Scheme Participants and ALF, a copy of which is set out in Schedule 3 of the Scheme Implementation Deed in Annexure B to this Booklet.             |
| <b>Deferred Tax Assets</b>               | means the tax effected income tax losses referred to at Section 6.10.   |
| <b>Directors</b>                         | means the directors of ALF.   |
| <b>Dividend</b>                          | means an amount of not less than 3 cent per Scheme Share determined by the Board and announced to the market prior to the Scheme becoming Effective.  |
| <b>Early Termination Fee</b>             | means an amount of \$2,500,000 payable by ALF to the Manager for the early termination of the ALF Management Agreement.   |
| <b>Early Termination Fee Resolution</b>  | means resolution to approve the Early Termination Fee to be put to ALF Shareholders at the Annual General Meeting.  |
| <b>Effective</b>                         | means, when used in relation to this Scheme, the coming into effect, under sections 411(10) and 413(1) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme. |
| <b>Effective Date</b>                    | means the date on which the Scheme becomes Effective, expected  |



|                                       |   |
|---------------------------------------|---|
|                                       | to be 17 March 2021.  |
| <b>Fund Benchmark</b>                 | means the benchmark used by the Watermark Fund for the purpose of calculating performance fees, being the RBA cash rate   |
| <b>Fund Constitution</b>              | means the constitution of the Watermark Fund as amended by the Responsible Entity from time to time included at Annexure G.   |
| <b>Fund Management Agreement</b>      | means the investment management agreement between the Watermark Fund and the Manager to be dated 3 March 2019, as amended from time to time.  |
| <b>Fund Portfolio</b>                 | means the Watermark Fund's portfolio of investments.  |
| <b>Government Agency</b>              | means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state.   |
| <b>Implementation Date</b>            | means the fifth Business Day after the Record Date, and is expected to be 26 March 2021 or such other date as ALF and the Responsible Entity agree in writing.  |
| <b>Independent Directors</b>          | means John Abernethy and Julian Gosse.  |
| <b>Independent Expert</b>             | means Titan Partners Corporate Finance Pty Limited.   |
| <b>Independent Expert's Report</b>    | means the report prepared by the Independent Expert, providing an opinion as to whether the Scheme is in the best interests of ALF Shareholders, included in Annexure A.  |
| <b>Ineligible Foreign Shareholder</b> | means a Scheme Participant whose address on ALF's share register as at the Record Date is a place outside Australia and its external territories and New Zealand, unless ALF and the Responsible Entity agree in writing that it is lawful and not unduly onerous or impracticable to transfer that Scheme Participant with the New Units when the Scheme becomes Effective (subject only to the provision of the KYC Information). |
| <b>Initial Investment Period</b>      | means 12 months after the issue of the New Units under the Scheme on the Implementation Date.   |
| <b>Investment Entity</b>              | has the meaning given in the ASX Listing Rules.   |
| <b>KYC Information</b>                | means all information required by the Responsible Entity to enable it to carry out the Customer Identification Procedure in respect of investors in the Watermark Fund.   |
| <b>Manager</b>                        | means Watermark Funds Management Pty Limited (ACN 106 302 505).   |
| <b>NAV</b>                            | means the net asset value per New Unit, calculated in accordance with has the meaning given in the Fund Constitution.   |
| <b>Nominee</b>                        | means the agent appointed by the Responsible Entity to be transferred, and to withdraw, the New Units in the Watermark  |

|                                       |   |
|---------------------------------------|---|
|                                       | Fund that would have otherwise been transferred to Ineligible Foreign Shareholders in relation to the Scheme.   |
| <b>NTA</b>                            | means net tangible assets calculated in accordance with the Corporations Act, Australian Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations and consistent with the requirements of the ASX Listing Rules for an Investment Entity. |
| <b>New Units</b>                      | means the new units in the Watermark Fund to be distributed as Scheme Consideration on the Implementation Date in accordance with the Scheme and pursuant to the PDS.   |
| <b>New Unitholders</b>                | means Scheme Participants in their capacity as holders of New Units.  |
| <b>PDS</b>                            | Product Disclosure Statement of the Watermark Fund included as Annexure F to this Booklet.  |
| <b>Pitcher Partners</b>               | means PPNSW Services Pty Limited.   |
| <b>Proxy Forms</b>                    | means the personalised forms for appointing a proxy in respect of the Scheme Meeting or Annual General Meeting accompanying this Booklet.   |
| <b>Record Date</b>                    | means 7.00pm (Sydney time) on the second Business Day after the Effective Date, expected to be 22 March 2021.   |
| <b>Registry</b>                       | means Boardroom Pty Limited (ACN 003 209 836).  |
| <b>Related Bodies Corporate</b>       | means has the meaning given in the Corporations Act.  |
| <b>Responsible Entity</b>             | means Equity Trustees Limited (ACN 004 031 298).  |
| <b>Responsible Entity Information</b> | means information about the Responsible Entity and the Watermark Fund set out in the Important Notices section, and Sections 7 and 9 of this Booklet along with the PDS.  |
| <b>Retention Amount</b>               | means \$100,000 or such lesser amount agreement between the Manager and ALF.  |
| <b>Scheme</b>                         | means this scheme of arrangement under Part 5.1 of the Corporations Act between ALF and the Scheme Participants on the terms set out in Annexure C  |
| <b>Scheme Conditions</b>              | means the conditions precedent summarised in Section 11.10 of this Booklet and set out in clause 3.1 of the Scheme Implementation Deed (a copy of which is reproduced at Annexure B).   |
| <b>Scheme Consideration</b>           | one New Fund Unit for each Scheme Share, subject in the case of Ineligible Foreign Shareholders to the operation of applicable provisions of the Scheme   |
| <b>Scheme Explanatory Statement</b>   | means the statement pursuant to section 412 of the Corporations Act which has been, or will be, registered by ASIC in relation to this Scheme, being all Sections of this Explanatory Booklet, other  |

|                                     |   |
|-------------------------------------|---|
|                                     | than this Annexure D.   |
| <b>Scheme Implementation Deed</b>   | means the Scheme Implementation Deed between ALF, the Responsible Entity and the Manager set out in Annexure B.   |
| <b>Scheme Meeting</b>               | means the meeting of ALF Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.   |
| <b>Scheme Participant</b>           | means each ALF Shareholder as at the Record Date  |
| <b>Scheme Resolution</b>            | means the resolution that ALF Shareholders are asked to vote on at the Scheme Meeting, as set out in the notice contained in Annexure D   |
| <b>Scheme Share</b>                 | means an ALF Share held by a Scheme Participant as at 7pm (Sydney time) the Record Date, expected to be 22 March 2021.  |
| <b>Second Court Date</b>            | means the first day on which the application made to the Court for an order for the purposes of section 411(4)(b) of the Corporations Act approving the Scheme is heard.  |
| <b>Share Register</b>               | means the register of members of ALF.   |
| <b>Shareholder Information Line</b> | Means 1300 737 760 (in Australia) or +61 2 9290 9600 (International), Monday to Friday between 9.00am and 5.00pm (Sydney time).   |
| <b>Titan Partners</b>               | means Titan Partners Corporate Finance Pty Limited.   |
| <b>Transaction Costs</b>            | means the costs and expenses associated with the Scheme including all costs associated with implementing the Scheme (including advisers expenses, legal expenses, counsel fees and fees of the Independent Expert). |
| <b>Watermark Fund</b>               | means the Watermark Absolute Return Fund (ARSN 631 094 534).  |
| <b>Watermark Information</b>        | means information regarding the Manager and the Watermark Fund (excluding the Responsible Entity Information) set out in the Important Notices section, Section 7, Section 8 and elsewhere in this Booklet.         |

### **13.2. INTERPRETATION**

In this Booklet (including the annexures) unless the context otherwise requires:

- a number of figures, amounts, percentages, estimates, calculations of value and fractions in this Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Booklet;
- except where otherwise stated, all references to times in this Booklet are references to Sydney time;
- all references to "\$", "dollar" and "cent" are references to Australian currency, unless stated otherwise;
- words and phrases not otherwise defined in this Booklet (excluding the annexures) have the same meaning (if any) as is given to them by the Corporations Act;
- the singular includes the plural and vice versa. A reference to a person includes a reference to a corporation;
- headings are for ease of reference only and do not affect the interpretation of this Booklet; and
- a reference to a section is to a section in this Booklet unless stated otherwise.

## ANNEXURE A- INDEPENDENT EXPERT'S REPORT



### Australian Leaders Fund Limited

(ASX: ALF)

ACN 106 845 970

### Independent Expert's Report

Report to Shareholders on the Proposed Transaction to restructure the Company via a Scheme of Arrangement with  
Watermark Funds Management Pty Limited and Watermark Absolute Return Fund

Report Issued: 29 December 2020

Titan Partners Corporate Finance Pty Limited  
Australia Financial Services Licence No. 427275

T : +61 2 9268 3300  
E: [info@titanpartners.com.au](mailto:info@titanpartners.com.au)

29 December 2020

The Directors  
Australian Leaders Fund Limited  
Level 23, Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000

Dear Directors,

**Titan Partners Corporate  
Finance Pty Limited**  
Australian Financial Services  
Licence Number: 427275  
ABN 38 177 095 636  
Level 3, 7 Macquarie Place  
Sydney NSW 2000  
PO Box R415  
Royal Exchange NSW 1225  
Australia  
T +61 2 9268 3300  
www.titanpartners.com.au

## INDEPENDENT EXPERT'S REPORT – AUSTRALIAN LEADERS FUND LIMITED

### 1. Overview

#### 1.1 Introduction

Titan Partners Corporate Finance Pty Limited ("**Titan Partners Corporate Finance**", "**we**") was appointed by the directors on the Independent Board Committee ("**IBC**") of Australian Leaders Fund Limited ("**ALF**" or the "**Company**") as an independent expert, to provide an opinion on a proposal to restructure the Company under a scheme of arrangement.

On 28 September 2019, ALF<sup>1</sup> announced to the Australian Securities Exchange Limited ("**ASX**") that the Company had entered into an agreement with Watermark Funds Management Pty Limited ("**Watermark**", "**WFM**" the "**Manager**") to restructure the Company, by way of a scheme of arrangement with Watermark Absolute Return Fund ("**WARF**", the "**Fund**"), hereafter the "**Proposed Transaction**" or the "**Proposed Scheme**".

Key components of the Proposed Transaction are:

- ALF will declare a fully franked dividend to be paid at implementation of the Proposed Scheme;
- WARF will issue a new class of units in the Fund ("**New Units**") to ALF;
- The existing ALF shareholders will receive New Units in WARF in return for their current ALF shares as an in specie distribution;
- ALF will reduce its share capital and existing ALF shares will be cancelled via a capital reduction; and
- The assets of ALF (excluding deferred tax assets) will be transferred to WARF.

Further detail of the Proposed Transaction are set out in the Scheme Booklet, which has been prepared by the Directors of the IBC for the shareholders of ALF (the "**Shareholders**").

#### 1.2 Purpose

To assist the Shareholders in making an informed decision on whether to approve the Proposed Transaction, we were appointed by the Directors on the IBC of ALF to prepare an Independent Expert's Report ("**Report**"). Our Report will express an opinion as to whether or not the Proposed Transaction is fair and reasonable to Shareholders, and accordingly is in the best interests of the Shareholders.

In the agreement signed between ALF and Watermark with respect to the Proposed Transaction, the Company is required to commission an independent expert to opine on the Proposed Transaction as a condition precedent to completion. Further, while WARF does not hold any shares in ALF, the current chairman of ALF is also the sole director of Watermark. As there is a common director between parties of the proposed scheme of arrangement to be effected under Section 411 of the *Corporations Act 2001*, an independent expert's report is also specifically mandated under:

- Clause 8303, Part 3 of Schedule 8 to the *Corporations Regulations 2001*; and

<sup>1</sup> ALF is listed on Australian Securities Exchange and is an investment company that employs a directional equity long and short investment strategy.

- Regulatory Guide 60 Schemes of arrangement (“**RG60**”) issued by the Australian Securities and Investments Commission (“**ASIC**”).

The Directors on the IBC of ALF have therefore commissioned Titan Partners Corporate Finance with respect to the Proposed Transaction. Our findings are presented in the Report herein.

Titan Partners Corporate Finance is independent of ALF, Watermark and WARF, with no interest or involvement in the outcome of the Proposed Transaction, other than the preparation of this Report.

### 1.3 Approach

In preparing the Report herein, we consider Regulatory Guide 111 *Content of expert reports* (“**RG111**”) dated March 2011 issued by ASIC, which sets out requirements of expert reports. Specifically, RG111 requires an independent expert to consider a scheme of arrangement using the same approach as takeover bids under the concepts of “fairness” and “reasonableness”.

#### ***Fairness***

In accordance with RG111.11, an offer is ‘fair’ if the value of the price or consideration offered is equal to or greater than the value of the securities subject to the offer. The comparison is required to be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length; and
- assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison.

In accordance with the requirements of RG111, we have compared the fair value of a share in ALF on a controlling basis to the value of consideration offered (in WARF New Units).

#### ***Reasonableness***

The concept of reasonableness is set out in RG111.12. An offer is ‘reasonable’ if it is fair. An offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons to accept the offer in the absence of any higher bid before close of the offer.

We therefore separately consider whether the Proposed Transaction is “fair” and “reasonable” from the perspective of the Shareholders. Based on our assessment of these concepts, we also conclude whether the Proposed Transaction is in the best interests of the Shareholders.

## 2. Summary of Opinion

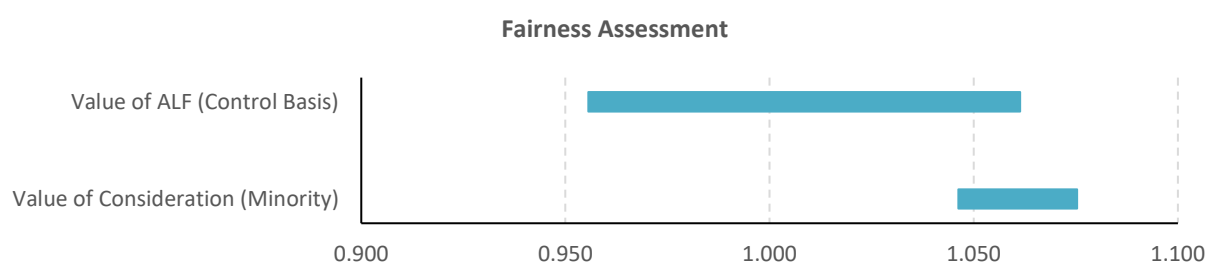
### 2.1 Opinion

We conclude, based on the assessment outlined in the remainder of this Report, that the Proposed Transaction is considered to be **fair and reasonable** to the Shareholders, as such, is in the best interests of Shareholders. The principal factors that we have considered in forming our opinion are summarised below. This summary should be read in conjunction with our the remainder of our Report herein, that sets out in full the purpose, scope, basis of evaluation, limitations, detailed analysis and our financial and qualitative findings.

### 2.2 Assessment of Fairness

In determining whether the Proposed Transaction is fair to the Shareholders, we have compared the assessed fair value of a share in ALF on a controlling basis to the value of consideration offered, being one New Unit of WARF per ALF share.

Our analysis is set out in Sections 8 through 10, as summarised in the following diagram and table.



| Australian Leaders Fund Limited<br>Valuation Summary     |        |        |
|--|--------|--------|
| \$ per Share   | Low    | High   |
| Value of ALF per share on a Controlling Basis            | 0.9556 | 1.0619 |
| Total Value of Consideration offered for every ALF share | 1.0462 | 1.0753 |

**Source:** Titan Partners Corporate Finance Analysis

In accordance with RG111, the above valuation analysis indicates that, in the absence of any other relevant information, the Proposed Transaction is deemed to be fair to Shareholders as the valuation of scheme consideration offered in WARF New Units on a minority basis, is within the assessed valuation range of ALF shares on a controlling basis. Therefore, we must conclude the Proposed Transaction is fair.

## 2.3 Assessment of Reasonableness

As set out in Section 1.3 above, RG111 considers an offer to be reasonable if:

- The offer is fair; or
- Despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

We have considered the analysis set out in Section 10 of this Report, in terms of advantages and disadvantages of the Proposed Transaction. In forming our opinion, we have also considered the following relevant reasonableness factors:

### Advantages

- Redemption Facility available following the Proposed Transaction to redeem WARF New Units at a price based on prevailing Net Tangible Assets value (less any transaction costs).
- Management Fee waiver for the first year of operations post the Proposed Transaction, reducing the cost of managing investments and increasing net earnings and assets attributable to holders of WARF New Units.
- Increase in size and scale as the existing ALF portfolio will be combined with the current investments of WARF, with the potential to reduce costs, whilst having greater ability to diversify investments, invest in larger entities, or hold more substantial positions in investments.
- Consistency in investment strategy post the Proposed Transaction, as Watermark is also the manager of WARF and utilises broadly the same strategy in WARF of a long-short portfolio of Australian listed securities.
- Low termination fee of \$2.5 million for early termination of the management agreement between ALF and Watermark with approximately 8 years remaining, for the equivalent of less than 1.5 years of management fees based on the current investment value of the Company.
- Reduction in costs with respect to administration and compliance as ALF Shareholders will no longer incur expense related to operating as an ASX-listed company.
- Ability to change manager in future as the WARF management agreement with Watermark may be terminated should the requisite number of unitholders vote to do so.
- No alternative offers received.



**Disadvantages**

- Shareholders will hold an unlisted investment instead of the ASX-listed ALF shares currently held, where investments in WARF are not able to be traded on an exchange and may only be exited via the Redemption Facility on a monthly basis.
- WARF will be unable to pay franked dividends as a result of the unlisted trust structure, hence investors will receive distributions from WARF without franking credits in the future which are subject to tax.
- The Proposed Transaction may proceed with ALF shares exchanged for WARF New Units, even if that shareholder votes not to approve the scheme.
- Accumulated tax losses and deferred tax assets will be forfeited and unable to be transferred to WARF.
- Taxation implications may arise for individual ALF Shareholders from implementation of the Proposed Transaction. Shareholders should seek independent taxation advice if required.
- Deterrence of alternative offers from other parties.

In our opinion, as the Proposed Transaction is assessed as fair, it is also reasonable. Our assessment of the above advantages and disadvantages supports our opinion that the Proposed Transaction is reasonable to ALF Shareholders.

**2.4 Other Factors**

The above summary of our opinion and conclusion should be read in conjunction with the remainder of this Report and Appendices as attached herein.

The Directors of ALF have recommended Shareholders vote in favour of the Proposed Transaction in the absence of a superior proposal and provided the independent expert forms the view the Proposed Transaction is fair and reasonable, and thus in the best interests of the Shareholders.

Titan Partners Corporate Finance has prepared a Financial Services Guide as required by *Corporations Act 2001* that is attached at Appendix 1. This Report is for general financial advice only and was prepared without taking into account the objectives and circumstances of individual Shareholders of the Company. Our Report herein should be read in conjunction with the Scheme of Arrangement which it accompanies.

Unless the context requires otherwise, references to “we”, “our” and similar terms refer to Titan Partners Corporate Finance.

Yours faithfully

**Titan Partners Corporate Finance Pty Limited**



**BRAD HIGGS**

Director

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### 3. Scope of Report

#### 3.1 Purpose of the Report

Titan Partners Corporate Finance has been engaged by the Directors on the IBC of ALF to prepare an Independent Expert's Report with respect to the Proposed Transaction.

In the Binding Heads of Agreement signed between ALF and Watermark with respect to the Proposed Transaction, the Company is required to commission an independent expert to opine on the Proposed Transaction as a condition precedent to completion. Further, Justin Braitling ("**Mr Braitling**") is the current Chairman of ALF and the sole director of Watermark, both being parties to the Proposed Transaction. As there is a common director between parties of the proposed scheme of arrangement to be effected under Section 411 of the *Corporations Act 2001*, an independent expert's report is also specifically prescribed under Clause 8303, Part 3 of Schedule 8 to the *Corporations Regulations 2001* and RG60 issued by ASIC, to be attached to the Scheme Booklet sent to Shareholders in relation to the Proposed Transaction.

This Report has been prepared to assist Shareholders to consider, if appropriate, whether to approve Proposed Transaction with Watermark and WARF, as summarised at Section 4 below. The Report herein sets out our approach, analysis and opinion as to whether the Proposed Transaction is fair and reasonable to ALF shareholders, and accordingly is in the best interests of Shareholders.

Our Report is to be included in the Scheme Booklet to be issued to Shareholders in accordance with the *Corporations Act 2001* and has been prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transaction.

#### 3.2 Basis of Assessment

In preparing the Report herein, we consider RG111 which sets out requirements of expert reports.

RG111 indicates the principles and matters which it expects an expert person preparing an independent expert report to consider. The regulations in RG111 require an independent expert to consider a scheme of arrangement using the same approach as takeover bids under the concepts of "fairness" and "reasonableness".

##### ***Fairness***

In accordance with RG111.11, an offer is '**fair**' if the value of the price or consideration offered is equal to or greater than the value of the securities subject to the offer. The comparison is required to be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison.

In accordance with the requirements of RG111, we have compared the fair value of a share in ALF on a controlling basis to the value of consideration offered (in WARF New Units).

##### ***Reasonableness***

The concept of reasonableness is set out in RG111.12. An offer is '**reasonable**' if it is fair. An offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons to accept the offer in the absence of any higher bid before close of the offer.

We therefore separately consider whether the Proposed Transaction is “fair” and “reasonable” from the perspective of the Shareholders. Based on our assessment of these concepts, we also conclude whether the Proposed Transaction is in the best interests of the Shareholders.

### **3.3 Sources of Information**

In forming our opinion on the Proposed Transaction and preparing the Report herein, we have considered, adopted and relied upon certain information prepared by Watermark, the management of ALF, the management of WARF, and external parties. Refer to Appendix 4 for a list of our sources of information.

### **3.4 Limitations and Reliance on Information**

Our opinions are based on economic, financial, operational and other conditions and expectations prevailing at the date of this Report. These conditions can change significantly over relatively short periods of time and, if such material change occurs, the opinions expressed in this Report could differ.

Titan Partners Corporate Finance has no obligation to, nor does it undertake to, advise any person of any change in circumstances that has come to its attention after the date of this Report or to review, revise or update this Report or the opinions contained herein. It is understood that the financial information provided to us was prepared in accordance with generally accepted accounting principles.

We have evaluated the information set out in Section 3.3 through analysis, enquiry and review, as appropriate for the purposes of preparing this Report and forming our opinion on the Proposed Transaction. Titan Partners Corporate Finance do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

We have relied on certain representations and relevant information provided by the Directors of ALF and WARF. This information was evaluated through analysis, enquiry and review. However, such information is often not capable of external verification or validation and has therefore not been independently verified.

To the extent that there are any legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Titan Partners Corporate Finance:

- assumes no responsibility and offers no legal opinion or interpretation on any issue;
- assumes the Proposed Scheme to be implemented, will be implemented in accordance with the stated terms and the legal mechanisms to implement the proposed scheme of arrangement are correct and effective, and will not materially change or be altered.; and
- has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so.

We have not undertaken any commercial, technical, financial, legal, taxation and due diligence activity in respect ALF or WARF. Titan don't provide assurance or an opinion in respect of these matters.

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## 4. The Proposed Transaction

### 4.1 Introduction

On 28 September 2020, ALF announced to the ASX that it had entered into a binding heads of agreement (“HOA”) with Watermark with respect to the Proposed Transaction (the “**28 Sep Announcement**”), which also disclosed the HOA entered into between the Company and the Manager (Watermark). Equity Trustees Limited (“EQT”, “the **Responsible Entity**”), as responsible entity of WARF, is also a party to the Proposed Scheme.

### 4.2 Key Terms

The HOA sets out key terms of the Proposed Transaction and indicative timing as envisaged by the IBC of the Company for implementation of the Scheme of Arrangement. A Scheme Implementation Deed has been entered into between the Company, Watermark and EQT which further details the Proposed Transaction, of which the key terms relevant to the Shareholders are summarised in this Section below.

#### *Scheme of Arrangement*

The Proposed Transaction to restructure ALF will be effected by way of a Scheme of Arrangement pursuant to Section 411 of the Corporations Act and RG60 issued by ASIC. A scheme of arrangement is a binding, court-approved agreement that allow the reorganisation of the rights and liabilities of members and creditors of a company<sup>2</sup>. Under the Proposed Transaction, Shareholders will receive New Units in WARF and their existing shares in ALF will be cancelled under a capital reduction.

The scheme must be approved by a court and at a meeting of Shareholders of ALF, for which the Company has set out indicative timing in the 28 Sep Announcement and summarised below.

#### *Indicative Timing*

As outlined in the 28 Sep Announcement, ALF Management anticipates a Scheme Meeting of Shareholders to approve the Proposed Transaction will be held between the first and second court dates. ALF anticipates scheme implementation to occur in March 2021. The key dates are as follows:

| Australian Leaders Fund Limited<br>Indicative Key Dates |   |
|---|---|
| Date  | Event                                     |
| 19 January 2021   | First Court Date                          |
| 22 January 2021   | Printing and despatch of Scheme Booklet   |
| 17 February 2021  | Scheme Meeting and Annual General Meeting |
| 26 February 2021  | Second Court Date                         |
| 1 March 2021  | Effective Date                            |
| 3 March 2021  | Record Date                               |
| 8 March 2021  | Implementation                            |

*Source: Scheme Booklet, ALF Announcement 22 December 2020.*

#### *Consideration*

Existing Shareholders will be issued one New Unit in WARF as a capital return for each ALF share currently held. The New Units will be a new class of security in WARF, an existing unlisted investment trust also managed by Watermark and further described in Section 6 below. Under current Know Your Customer rules of the *Anti Money Laundering /*

<sup>2</sup>Per RG60 paragraph 60.1

*Counter-terrorism Financing Act 2006 ("KYC Requirements")*, ALF shareholders must provide certain details to satisfy the KYC Requirements of WARF.

As Foreign ALF Shareholders cannot be issued WARF New Units, their entitlement for New Units under the Proposed Transaction will be held by an appointed nominee, where the New Units will be redeemed on their behalf and the proceeds of redemption paid to the shareholder.

For Australian ALF Shareholders, the WARF New Units will be issued in the name of ALF and be distributed to them by ALF. EQT (as responsible entity of WARF) will use reasonable endeavours to collect sufficient information from ALF Shareholders to meet the KYC Requirements for WARF unitholders ("**KYC Information**"), prior to implementation of the Proposed Transaction. For those ALF shareholders whom have not provided the KYC Information to EQT to satisfy the KYC Requirements, their ability to redeem the WARF New Units under the Redemption Facility (outlined below) after the implementation of the Proposed Scheme will be impacted. Further, EQT will be unable to pay such holders of WARF New Units any future distributions from WARF, including the issue of additional units in WARF through distribution reinvestment. We note the Scheme Booklet advises ALF Shareholders to sell their ALF shares on market should they not wish to provide the KYC information to become holders of WARF New Units.

### ***Features of the WARF New Units***

Under the terms agreed by the Company as set out in the HOA, the WARF New Units will have the following terms and features:

- A management fee for the services provided by Watermark will not be applied to WARF New Units for the first year after issue. The standard management fee (based on the prevailing Net Asset Value of the Fund) currently applicable to ALF and WARF will resume in the second year after issue of the New Units;
- A Redemption Facility currently provided to existing WARF unitholders will also be made available to ALF shareholders holding WARF New Units after the Proposed Transaction, where unitholders may redeem their units on a monthly basis. The price received will be calculated from the most recent Net Asset Value of the Fund less a transaction buy/sell spread;
- A Redemption Fee being the lesser of 2% of the Net Asset Value of the New Units or 2 cents per New Unit will be applied for any redemptions of WARF New Units within the first year of issue. The Redemption Fee will not apply to redemptions of WARF New Units thereafter;
- Performance Fees will be calculated on the WARF New Units on the same basis as applicable for existing unitholders of WARF.

### ***Termination Fee***

Following the Proposed Transaction, the services of Watermark will no longer be required by the Company as all of ALF's investment assets and liabilities will be transferred to WARF under the Scheme of Arrangement. As the Manager is currently contracted to provide services, and the Company is contracted to utilise such services, a termination fee for the current management agreement has been negotiated between the parties at the amount of \$2.5 million. Further details of the management agreement between Watermark and WARF is set out in Section 5.2 below.

### ***Costs***

As set out in the 28 Sep Announcement, ALF will be responsible for the costs associated with the Proposed Transaction. It was agreed between the parties that the transaction costs associated with the Proposed Transaction will be approximately \$990,000. To ensure the Company holds sufficient funds to cover all costs of the Proposed Transaction and associated liabilities to operate ALF after the implementation date of the scheme, a retention amount of \$100,000 will be set aside from the assets of ALF to be transferred to WARF under the Proposed Transaction. Further information on the estimated costs are set out in Section 8.2 below.

### ***Terms and Conditions / Conditions Precedent***

The Proposed Transaction will be subject to a number of conditions as set out in Item 9 of the HOA attached to the 28 Sep Announcement by ALF, including:

- Execution of a Scheme Implementation Deed between ALF, Watermark and EQT setting out the roles and responsibilities of each party under the Proposed Transaction;
- Approval from ALF Shareholders of the Proposed Transaction
- Approval from the Board of Directors of ALF and EQT of the Proposed Transaction and associated documents, including the issue of the Scheme Booklet to be distributed to the Shareholders;
- The Independent Expert concluding the Proposed Transaction is fair and reasonable to ALF Shareholders; and
- All other required regulatory and court approvals

### **4.3 Key Implications of Scheme**

If approved by the Shareholders, the Proposed Transaction would result in the following changes when completed, from the perspective of the ALF Shareholders

- **Structure** – Shareholders will hold unlisted WARF New Units and no longer hold any ASX-listed shares in ALF which will be subsequently cancelled by way of capital reduction;
- **Dividend** – ALF will pay a fully-franked dividend in cash to return remaining franking credits to ALF Shareholders. The Dividend will be paid upon implementation of the Proposed Scheme and will not be payable if the Proposed Transaction is not approved by ALF shareholders.
- **Manager** – As Watermark is the current investment manager for the Company and for WARF and utilises the same investment strategy, there will be no change to the Manager of the Shareholders' investments or the strategy implemented.
- **Management Fees** – The standard management fee applied by Watermark of 1% of the Net Asset Value is consistent between ALF and WARF. However, the fee will not be applied by the Manager to WARF New Units for the first year after issue.
- **Performance Benchmark** – Watermark is entitled to a performance fee as part of its role as Manager of the Company. A similar performance fee exists in the Watermark management agreement between Watermark and WARF, however a different performance benchmark is utilised. Refer to Section 5.2 below for further detail on the management agreement for ALF and to Section 6.1 for the WARF management agreement.
- **Redemption Facility** – As holders of WARF New Units after the Proposed Transaction, Shareholders will have access to a Redemption Facility to exit their investments on a monthly basis, at a price calculated based on the prevailing monthly Net Asset Value. A Redemption Fee will apply for any redemptions made within the first year of the issue of the WARF New Units as outlined in the features of the WARF New Units in Section 4.2 above.

### **4.4 Profile of Watermark**

Watermark is a specialist investment manager established in 2003 by Mr Braitling and based in Sydney. The Manager is an active, high conviction investor, focusing on Australian listed companies. Watermark is an absolute return investor and offers an alternative to traditional institutional funds.

The goal of Watermark's investment approach is the identification of mispriced shares, where Watermark seeks to purchase the shares of superior companies at an attractive price. In addition to this, Watermark seeks opportunities to sell (short sell) the shares of weaker businesses that the Manager considers are overvalued based on investment and financial fundamentals.

This approach differentiates Watermark from traditional managers, whom typically invest on a long term “buy and hold” basis, which is a strategy that is more dependent on rising financial markets. The alternative investment strategies employed by Watermark are more active in seeking to profit from the mispricing of shares, thus less reliant on general share market appreciation.

To identify suitable companies for its investment strategy, Watermark conducts detailed fundamental analysis of Australian companies, seeking opportunities to invest in businesses with sound economics on occasions when they are undervalued or overvalued on the ASX. By constructing a portfolio of shares in such companies, Watermark seeks to deliver superior returns to investors over time.

The Manger currently deploys its investment strategy in both a listed investment company (ALF) and an unlisted managed fund (WARF). Profiles of ALF and WARF are set out in Sections 5 and 6 respectively below.

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## 5. Profile of ALF

### 5.1 Background

#### *Overview*

ALF is an ASX listed investment company established in 2003 and under the management of Watermark. The Company aims to provide shareholders with the ability to gain from mispricing of shares in all segments of the market. ALF holds assets in the form of listed securities, comprising a “long” portfolio and a “short” portfolio, which Watermark adjusts strategically within ALF to increase or decrease its net market exposure to take advantage of opportunities.

#### *Directors and Management*

The current board of directors and senior management of ALF are:

- Justin Braithling, Chairman.
- Geoffrey Wilson, Non-executive director.
- John Abernethy, Non-executive director.
- Julian Gosse, Non-executive director.

Watermark has been engaged as the investment manager of ALF since foundation of the Company under a management agreement between the Company and the Manager. Further detail of the agreement with Watermark is discussed below in Section 5.2. Mr Braithling is also the sole director of Watermark.

#### *Investment Strategy*

The investment strategy of ALF involves the traditional long investments in underpriced equities, being the long portfolio, as well as the short selling of overpriced securities, being the short portfolio. Proceeds from the sale of securities in the short portfolio provide additional capital for investment in the long portfolio or may be retained in cash as the Manager sees fit. The portfolios historically comprised primarily of Australian shares listed on the ASX, with exposure to international equities for a brief period in the Company’s history.

For the long portfolio, investments are typically selected based on superior historic returns and capacity for growth. The short portfolio focuses on poorly managed companies with weak fundamentals where the shares in those companies can be sold at a value higher than their assessed market value. The Manager adjusts the weighting of the two portfolios relative to the quality of their investment, with consideration of macroeconomic and sector factors. The size of the long and short portfolios will determine the net exposure to the market. The larger the short portfolio is relative to the long portfolio, the lower the net market exposure is and the higher the cash weighting. If the portfolios are of equal size, the portfolio will be market neutral with no net market exposure. The manager may pursue the full range of market risk settings and the available capital can be fully invested, market neutral, net short or any position in between.

In the year to 30 June 2019 (“FY2019”), ALF underwent a transition in its strategy on the back of poor performance over the first part of the year and preceding periods and it posted a before tax loss of \$20.5 million for FY2019. The transition saw ALF cease holding international equities in its portfolios, to bring its focus exclusively back to the Australian share market. ALF Management executed the strategic transition in FY2019 and noted that there was an uplift in performance upon the shift to a domestic focus in the early months of the year to 30 June 2020 (“FY2020”).

ALF Management indicated that largely as a result of changes in investment strategy, ALF posted a before tax profit of \$1.29 million in FY2020, allowing it to distribute dividends totalling 5 cents per share in the period. ALF delivered a gross return of 0.9% outperforming the All Ordinaries Accumulation Index, which fell by 7.2%.

### Current Value

The ALF portfolio structure below is extracted from the latest announcements by the Company to the ASX. Changes in portfolio composition from the prior month illustrates the asset holdings are regularly adjusted by the Manager in executing the investment strategy:

| Australian Leaders Fund Limited<br>Portfolio Structure as at 30 November 2020 |             |                |               |               |
|---|-------------|----------------|---------------|---------------|
|   | August 2020 | September 2020 | October 2020* | November 2020 |
| Long Exposure <sup>3</sup>  | 53.6%       | 52.1%          | ND            | ND            |
| Short Exposure <sup>4</sup>   | (54.6%)     | (40.9%)        | ND            | ND            |
| Gross Exposure  | 108.2%      | 93.0%          | ND            | ND            |
| Net Exposure  | (1.1%)      | 11.2%          | ND            | ND            |
| Cash  | 101.1%      | 88.8%          | ND            | ND            |
| Capital <sup>5</sup>  | 100%        | 100%           | ND            | ND            |

Source: ALF NTA Announcements

\*ND - Not disclosed -There is no information disclosed on portfolio structure for the month ended 31 October 2020.

As a result, the net tangible asset ("NTA") backing of the Company is as follows:

| Australian Leaders Fund Limited<br>Net Tangible Asset Backing (Per Share) as at 30 November 2020 |             |                |              |               |
|--|-------------|----------------|--------------|---------------|
|  | August 2020 | September 2020 | October 2020 | November 2020 |
| NTA Before Tax   | \$1.15      | \$1.15         | \$1.08       | \$1.104       |
| NTA After Tax <sup>6</sup>   | \$1.14      | \$1.14         | \$1.08       | \$1.083       |
| NTA After Tax & DTA/CTL <sup>7</sup>   | \$1.05      | \$1.05         | \$1.08       | ND            |

Source: ALF NTA Announcements

We note that the NTA backing of the fund as at 30 September 2020 is \$1.15 per share before tax and \$1.05 per share after tax and deferred tax asset and liability. ALF announced on 13 November 2020 it intends to impair the DTA value to zero, where the October 2020 NTA value announced to the ASX on the same date incorporates the impairment of DTA, resulting in the observed reduction in NTA Before Tax and NTA After Tax in the above table.

<sup>3</sup> Long exposure represents the long portfolio according to the investment strategy.

<sup>4</sup> Short exposure reflects the short portfolio which involves short selling.

<sup>5</sup> Capital comprises Net exposure and Cash position.

<sup>6</sup> The NTA After Tax includes \$0.09 per share of deferred tax assets net of liabilities in the current year.

<sup>7</sup> The NTA After Tax & DTA/CTL includes prior years' tax losses in addition; DTA is deferred tax asset and DTL is deferred tax liability.

Set out below are the investments in the ALF portfolio as at 30 June 2020.

| Australian Leaders Fund Limited<br>Portfolio Investments as at 30 June 2020 |               |               |
|---|---------------|---------------|
| \$'000s   | Value         | %             |
| <b>Top 15 ALF Investments</b>   |               |               |
| Tabcorp Holdings Limited  | 6,100         | 6.3%          |
| CSL Limited   | 4,456         | 4.6%          |
| a2 Milk Company Ltd   | 3,680         | 3.8%          |
| Insurance Australia Group Limited   | 2,942         | 3.1%          |
| AusNet Services Limited   | 2,911         | 3.0%          |
| Wesfarmers Limited  | 2,865         | 3.0%          |
| Collins Foods Limited   | 2,739         | 2.8%          |
| Santos Limited  | 2,695         | 2.8%          |
| Xero Limited  | 2,612         | 2.7%          |
| Iluka Resources Limited   | 2,483         | 2.6%          |
| Bapcor Limited  | 2,476         | 2.6%          |
| South32 Ltd.  | 2,422         | 2.5%          |
| Technology One Limited  | 2,399         | 2.5%          |
| SKYCITY Entertainment Group Limited   | 2,379         | 2.5%          |
| Woolworths Group Ltd  | 2,309         | 2.4%          |
| <b>Subtotal</b>   | <b>45,468</b> | <b>47.1%</b>  |
| Other Investments   | 50,977        | 52.9%         |
| <b>Total Long Portfolio</b>   | <b>96,445</b> | <b>100.0%</b> |

Source: Management Reports, FY2020 ALF Financial Report

## 5.2 Watermark Management Agreement

An Investment Management Agreement (“IMA”) for the Manager to operate ALF was signed on 11 November 2003 between Wilson Leaders Limited and KWB Capital Pty Limited, being the former names of ALF and Watermark respectively.

### **Fee Structure**

The IMA between ALF and Watermark commenced in 2003 and has operated in its current form for approximately 17 years. The term of the agreement is 25 years and is due to expire in November 2028. Under the IMA, the Manager is entitled to be paid the following by the Company:

- a management fee of 1% of net asset value of ALF payable monthly; and
- a performance fees of 20% of an amount by which the investment portfolio return in the financial year exceeds the return of All Ordinaries Accumulation Index<sup>8</sup>. In the case the company investment portfolio return does not exceed the return of All Ordinaries Accumulation Index, there is no performance fee payable. The performance fee is payable annually at 30 June.

<sup>8</sup> All Ordinaries Accumulation Index is Australia's premier market indicator. The index represents the 500 largest companies listed on the ASX.

### 5.3 Ownership Structure

Major shareholders of ALF as at the 28 Sep Announcement of the Proposed Transactions are summarised below.

| Australian Leaders Fund Limited<br>Current Ownership Structure  |                    |              |
|---|--------------------|--------------|
| Name  | Units              | %            |
| <b>Major Shareholders</b>                                       |                    |              |
| J P Morgan Nominees Australia Pty Limited                       | 5,963,892          | 3.11         |
| Hsbc Custody Nominees (Australia) Limited                       | 4,100,447          | 2.13         |
| Mrs Fay Martin-Weber  | 3,500,000          | 1.82         |
| First Covenant Pty Ltd  | 2,971,833          | 1.55         |
| Mr John Charles Plummer   | 1,542,500          | 0.80         |
| Mr John Steven Page & Mrs Gillian Kay Page                      | 1,305,000          | 0.68         |
| Neville Ward Super Pty Limited ATF The Nw Ward Super Fund       | 1,246,235          | 0.65         |
| Avanteos Investments Limited                                    | 1,177,412          | 0.61         |
| John Grice Pty Ltd  | 1,060,711          | 0.55         |
| Mr Robert Ferguson & Ms Jennifer Ferguson & Est Rachel Ferguson | 1,038,056          | 0.54         |
| Burrows Investments Pty Ltd                                     | 1,018,579          | 0.53         |
| G W Holdings Pty Ltd  | 1,000,000          | 0.52         |
| First Covenant Pty Ltd ATF Braitling Super Fund                 | 920,895            | 0.48         |
| Abtourk (Syd No 415) Pty Ltd                                    | 900,000            | 0.47         |
| Mrs Thelma Joan Martin-Weber                                    | 893,366            | 0.47         |
| Finance Associates Pty Ltd                                      | 850,000            | 0.44         |
| Abbawood Nominees Pty Ltd                                       | 828,000            | 0.43         |
| Est Mr Peter Michael Lynch                                      | 800,000            | 0.42         |
| Bnp Paribas Nominees Pty Ltd                                    | 758,161            | 0.39         |
| Ocean Capital Pty Limited                                       | 750,000            | 0.39         |
| Top 20 Shareholders   | <b>32,625,087</b>  | <b>16.99</b> |
| <b>Other Shareholders</b>                                       | <b>159,448,613</b> | <b>83.01</b> |
| <b>Total Shares Issued</b>                                      | <b>192,073,700</b> | <b>100</b>   |

*Source: ALF Share Register as at 30 September 2020*

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## 5.4 Market Announcements

The following table sets out the recent announcements released by ALF to the ASX. In addition to the announcement of the Proposed Transaction on 28 September 2020 and release of periodic financial reports (quarterly and full year), ALF also reports its net tangible asset backing on a monthly basis as required under ASX Listing Rules and a weekly month-to-date performance estimate. The full list of announcements since 1 July 2020 by the Fund is set out at Appendix 5.

| Australian Leaders Fund Limited<br>Recent Company Announcements |   |
|---|---|
| Announcement Date   | Title   |
| 31/08/2020  | Media Release <sup>9</sup>                                  |
| 01/09/2020  | Weekly Month-to-date Performance Estimate                   |
| 02/09/2020  | Change in Portfolio Value                                   |
| 03/09/2020  | ALF Independent Board Committee                             |
| 07/09/2020  | Weekly Month-to-date Performance Estimate                   |
| 08/09/2020  | Cancellation of shares ASIC form 484                        |
| 14/09/2020  | Net Tangible Asset Backing                                  |
| 14/09/2020  | Weekly Month-to-date Performance Estimate                   |
| 21/09/2020  | Weekly Month-to-date Performance Estimate                   |
| 24/09/2020  | Trading Halt <sup>10</sup>                                  |
| 28/09/2020  | Execution Of Heads Of Agreement For A Proposed Restructure  |
| 30/09/2020  | Full Year Statutory Accounts                                |
| 01/10/2020  | Change in Portfolio Value                                   |
| 06/10/2020  | Weekly Month-to-date Performance Estimate                   |
| 08/10/2020  | Change of date of Annual General Meeting                    |
| 12/10/2020  | Weekly Month-to-date Performance Estimate                   |
| 14/10/2020  | Net Tangible Asset Backing                                  |
| 19/10/2020  | Weekly Month-to-date Performance Estimate                   |
| 26/10/2020  | Weekly Month-to-date Performance Estimate                   |
| 02/11/2020  | Change in Portfolio Value                                   |
| 03/11/2020  | Corporate Governance Council Principles and Recommendations |
| 09/11/2020  | Weekly Month-to-date Performance Estimate                   |
| 13/11/2020  | Net Tangible Asset Backing                                  |
| 13/11/2020  | Impairment of Deferred Tax Assets                           |
| 16/11/2020  | Weekly Month-to-date Performance Estimate                   |
| 23/11/2020  | Weekly Month-to-date Performance Estimate                   |
| 30/11/2020  | Weekly Month-to-date Performance Estimate                   |

*Source: Australian Securities Exchange*

## 5.5 Industry Overview

ALF operates in the Financial Asset Investing industry in Australia. The industry consists of a range of investment vehicles, however industry operators principally pool together investor funds and invest them across different asset classes of financial assets. Profits reported by industry participants typically consists of investment returns less management expenses which in most cases are calculated at a percentage of investment vehicles' assets. The management fees typically range from 0.7% to 2.5%. Industry participants predominantly invest in various financial assets, including ASX listed companies, bonds and other assets. In line with other industry participants, ALF is an

<sup>9</sup> Media Release relates to FY2020 portfolio performance update.

<sup>10</sup> The Company's shares were placed in a trading halt prior to release of the announcement on 28/09/2020 of the Proposed Transaction.

ASX-listed investment company which invests in listed investments and derivatives in Australia. We consider the core revenue stream of ALF correlates to the revenue trend in the Financial Asset Investing industry.

Prior to the outbreak of COVID-19, the Financial Asset Investing industry was anticipated to grow revenue in FY2020. However, the outbreak of COVID-19 in 2019-20 has led to significant disruption in both local and global equity markets. Consequently, industry revenue is expected to decline at an annualised 1.7% over the five years through 2020-21, to \$10.0 billion. This includes an anticipated decline of 3.4% in the current year. As projected by IBISWorld in August 2020, the industry is forecast to expand over the next five years, with revenue forecast to grow at an annualised 0.8% over the five years through 2025-26, to \$10.4 billion. Following an anticipated recovery from the COVID-19 pandemic, greater stability in financial markets and renewed investor confidence are expected to support this growth<sup>11</sup>.

## 5.6 Historical Financial Performance

The financial performance of ALF for the two most recent financial years being FY2019 and FY2020, and five months period to 30 November 2020 ("YTD Nov20") are summarised in the table below.

| Australian Leaders Fund Limited  |          |                 |                  |               |               |               |               |
|----------------------------------|----------|-----------------|------------------|---------------|---------------|---------------|---------------|
| Operating Results                |          |                 |                  |               |               |               |               |
| \$'000s                          | Notes    | FY2019          |                  | FY2020        |               | YTD Nov20     |               |
|                                  |          | Actual          | %                | Actual        | %             | Actual        | %             |
| <b>Revenue</b>                   | <b>1</b> | 1,668           | 100.0%           | 19,539        | 99.7%         | 16,347        | 100.0%        |
| Other Income                     | 2        | -               | -                | 65            | 0.3%          | -             | -             |
| <b>Total Income</b>              |          | <b>1,668</b>    | <b>100.0%</b>    | <b>19,604</b> | <b>100.0%</b> | <b>16,347</b> | <b>100.0%</b> |
| Management fee                   | 3        | 2,929           | 175.6%           | 2,506         | 12.8%         | 883           | 5.4%          |
| Brokerage expense                | 4        | 3,233           | 193.9%           | 3,871         | 19.7%         | -             | -             |
| Dividend and Interest expense    | 5        | 13,830          | 829.3%           | 9,398         | 47.9%         | 1,735         | 10.6%         |
| Stock loan fee                   | 6        | 1,501           | 90.0%            | 1,503         | 7.7%          | 346           | 2.1%          |
| Professional fee                 |          | 166             | 10.0%            | 211           | 1.1%          | 87            | 0.5%          |
| Listing expense                  |          | 191             | 11.5%            | 244           | 1.2%          | 33            | 0.2%          |
| Remuneration                     | 7        | 90              | 5.4%             | 90            | 0.5%          | 100           | 0.6%          |
| Other expense                    | 8        | 293             | 17.6%            | 492           | 2.5%          | 890           | 5.4%          |
| <b>Total Expenses</b>            |          | <b>22,233</b>   | <b>1333.1%</b>   | <b>18,315</b> | <b>93.4%</b>  | <b>4,074</b>  | <b>24.9%</b>  |
| <b>Reported EBITDA</b>           |          | <b>(20,566)</b> | <b>(1233.1%)</b> | <b>1,289</b>  | <b>6.6%</b>   | <b>12,273</b> | <b>75.1%</b>  |
| Income Tax Benefit               | 9        | 7,074           | 424.2%           | 143           | 0.7%          | (3,665)       | (22.4%)       |
| <b>Reported Profit After Tax</b> |          | <b>(13,491)</b> | <b>(809.0%)</b>  | <b>1,432</b>  | <b>7.3%</b>   | <b>8,608</b>  | <b>52.7%</b>  |

**Source:** Historical Financial Statements, Management Reports

We note the following with respect to the historical financial performance of ALF:

1. Revenue comprises realised and unrealised gain from long and short position, dividend income and bank interest received. ALF suffered trading losses in FY2019 resulted from the underperforming long portfolios. There has been changes to the ALF's investment strategy in late FY2019 by withdrawing the equity investments from international shares to focus on the Australian share market. The change in strategy has proven successful in achieving higher revenue in FY2020.
2. Other income includes compensation rebates received from the brokers.
3. Management fees are calculated at 1% of the net investment asset comprise service agreement fees.

<sup>11</sup> Sourced from Industry Research Reports published by IBISWorld Pty Limited ("IBISWorld") report K6240 Financial Asset Investing in Australia.

4. Brokerage expenses are paid for equity investment transactions. The amount for the five month period to November 2020 is not separately reported. The brokerage expense is booked together with unrealised profit and loss of settled equities during the year with the transactions, and are recognised separately from the unrealised profit and loss at the year-end by journal entry.
5. Dividend and Interest expenses include dividend expenses payable on the shares borrowed for short selling activities and interest expenses related to borrowed shares sold short.
6. Stock loan expenses relate to fees charged for short selling activities.
7. Remuneration comprises director fees, director expenses and director's liability insurance.
8. Other expenses are made up of Legal fees, Bank Charges, Company Secretarial Fees, Done Away Fees, Foreign tax credits, Miscellaneous Expense and Tax Fees.
9. Income Tax Benefits are calculated on current year profit and loss with adjustments to franking credits on dividends.

## 5.7 Financial Position

The financial position of ALF as at 30 June 2019, 30 June 2020 and 30 November 2020 is summarised below.

| Australian Leaders Fund Limited<br>Historic Balance Sheet |       |                  |                  |                      |
|---|-------|------------------|------------------|----------------------|
| \$'000s   | Notes | FY2019<br>Actual | FY2020<br>Actual | 30/11/2020<br>Actual |
| <b>Current Assets</b>                                     |       |                  |                  |                      |
| Cash and cash equivalents                                 |       | 249,035          | 192,480          | 222,973              |
| Trade and other receivables                               | 1     | 31,605           | 13,508           | 125                  |
| Financial assets  | 2     | 180,883          | 96,445           | 312                  |
| Current tax assets  | 3     | 3,124            | 1,346            | 92                   |
| <b>Total Current Assets</b>                               |       | <b>464,646</b>   | <b>303,779</b>   | <b>223,502</b>       |
| <b>Non-Current Assets</b>                                 |       |                  |                  |                      |
| Deferred tax assets                                       | 4     | 16,795           | 16,781           | 16,848               |
| <b>Total Non Current Assets</b>                           |       | <b>16,795</b>    | <b>16,781</b>    | <b>16,848</b>        |
| <b>Total Assets</b>                                       |       | <b>481,441</b>   | <b>320,560</b>   | <b>240,350</b>       |
| <b>Current Liabilities</b>                                |       |                  |                  |                      |
| Trade and other payables                                  |       | 25,676           | 14,948           | 11,404               |
| Derivative financial instruments                          | 5     | -                | 10               | -                    |
| Financial liabilities                                     | 6     | 177,770          | 88,333           | -                    |
| <b>Total Current Liabilities</b>                          |       | <b>203,446</b>   | <b>103,291</b>   | <b>11,404</b>        |
| <b>Non-Current Liabilities</b>                            |       |                  |                  |                      |
| Deferred tax liabilities                                  |       | 1,356            | 394              | 4,126                |
| <b>Total Non Current Liabilities</b>                      |       | <b>1,356</b>     | <b>394</b>       | <b>4,126</b>         |
| <b>Total Liabilities</b>                                  |       | <b>204,802</b>   | <b>103,685</b>   | <b>15,530</b>        |
| <b>Net Assets</b>   | 7     | <b>276,639</b>   | <b>216,875</b>   | <b>224,819</b>       |

**Source:** Historical Financial Statements, Management Financial Reports

We note the following with respect to the financial position of ALF and key material balance sheet items:

1. Trade and other receivables comprise the balance of Withholding tax receivable, dividend and distribution receivable, interest receivable, GST receivable and any unsettled trades on the long positions. The balance has declined as there are no unsettled trades as at 30 November 2020.
2. Financial assets include international and domestic listed equity securities and other unlisted equity securities. A breakdown of the top 15 investments as at 30 June 2020 is set out in Section 5.1. We are advised by ALF Management that the majority of long equity investments have been liquidated into cash as at 30 November 2020, thereby reducing the total Financial Assets held by the Company.
3. Current tax assets represent claimable GST balance on brokerage, management fees, performance fees and other expenses.
4. Deferred tax assets relate to carried forward historic tax losses and temporary differences in tax liabilities attributable to capitalised share issue costs and accrued expenses.
5. Derivative financial instruments were futures held as at 30 June 2020. The notional value of futures was \$654,012 as at 30 June 2020.
6. Financial liabilities are listed equity securities borrowed for the short portfolio. The FY2019 balance includes international and domestic listed equity and due to the changes in the investment strategy the FY2020 balance only has Australian listed equity. All short investment positions have been liquidated as at 30 November 2020 in preparation for the Proposed Transaction, thus the carrying value has reduced to zero.
7. Net Assets have declined from FY2019 as total invested capital of the Company has decreased (comprising reductions in Financial Assets, Financial Liabilities and Cash holdings) due to a reduction in share capital from the share buybacks undertaken by the Company.

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## 6. Profile of WARF

### 6.1 Background

WARF (the Fund) is an unlisted Australian unit trust registered under the *Corporations Act 2001* as a managed investment scheme established in 2019. EQT, as Responsible Entity of the Fund, appointed Watermark as investment manager for WARF, with a fund size of \$28 million as at 30 October 2020 and with strategic funds under management of \$235 million<sup>12</sup>. The fund engages UBS & Morgan Stanley as their Prime Brokers and Custodians.

The Fund utilises the same 'long' and 'short' variable beta portfolio strategy of Watermark utilised in the management of ALF, with the same approach to the equities market as discussed in Section 5.1 above, however it is benchmarked against the RBA cash rate as opposed to All Ordinaries Accumulation Index used by ALF.

Similar to the ALF, WARF will predominantly hold securities listed on the ASX, however, per its Product Disclosure Statement, it may also hold up to 20% of its gross exposure in international securities. Where Watermark invests in international securities, it will aim to broadly manage the Fund's exposure to currency movements by balancing 'long' and 'short' exposures in foreign currencies.

The structure of the fund portfolio as at 30 October 2020 is as below. The net exposure is sum of the positive market exposure of long portfolio and negative market exposure of the short portfolio.

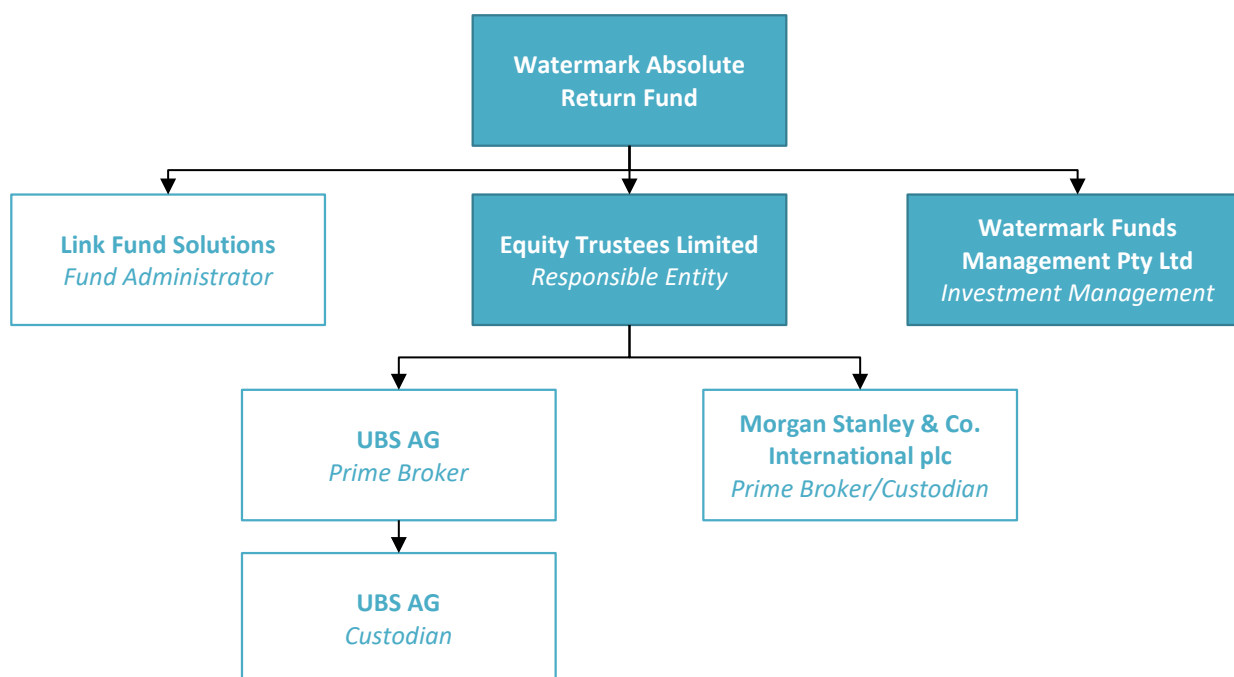
| Watermark Absolute Return Fund<br>Portfolio Structure as at 30 October 2020 |               |
|---|---------------|
|   | October 2020  |
| Long Exposure (73 Positions)  | 53.3%         |
| Short Exposure (58 Positions)   | (65.0%)       |
| Gross Exposure  | 118.3%        |
| <b>Net Exposure</b>   | <b>-11.7%</b> |
| Cash  | 111.7%        |
| <b>Capital</b>  | <b>100%</b>   |

*Source: WARF Monthly Update October 2020*

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<sup>12</sup> Per the 'Monthly Update – October 2020' released by WARF.

The investment structure of the WARF Fund is as follows:



### **Fee Structure**

Under the management agreement between WARF and the Watermark entered into at the inception of the Fund, the Manager is entitled to:

- a management fee of 1% of net asset value inclusive of Goods and Services Tax (“GST”) and net of any RITC<sup>13</sup> together with a cap of 0.3% of net asset value to cover operating expenses incurred by the Manager which are calculated monthly.
- a performance fee of 20.5% (inclusive of GST and RITC) of the amount by which the investment portfolio return in the financial year exceeds the return of the cash rate published by the Reserve Bank of Australia, subject to the high-water mark. The high-water mark is calculated as the highest Net Asset Value of the Fund at the end of a financial year where a performance fee has been paid, adjusted for applications, redemptions and subsequent distributions. In the case the Fund investment portfolio return does not exceed the return of cash rate, there is no performance fee payable. The performance fee is calculated monthly and payable annually in arrears at 30 June.

<sup>13</sup> RITC means reduced input tax credit

## 6.2 Ownership Structure

As of 21 December 2020, WARF had 26.6 million units on issue. Unitholders with more than 100,000 units collectively own 36.45% of WARF as shown below.

| Watermark Absolute Return Fund<br>Current Ownership Structure |                   |            |
|---|-------------------|------------|
| Name  | Units             | %          |
| 1 to 1,000 units  | 37,459            | 0.14       |
| 1,001 to 5,000 units  | 935,189           | 3.51       |
| 5,001 to 10,000 units   | 1,464,078         | 5.49       |
| 10,001 to 100,000 units                                       | 14,496,700        | 54.41      |
| 100,001 and over  | 9,711,329         | 36.45      |
| <b>Total Units Issued</b>                                     | <b>26,644,755</b> | <b>100</b> |

*Source: WARF Management*

The top 20 WARF Unitholders as at 7 October 2020 are shown as below. The top 20 shareholders collectively own 29.82% of the equity interest in WARF. First Covenant Pty Ltd is an associated entity of Mr Braithling, the director of Watermark.

| Watermark Absolute Return Fund<br>Major Unitholders      |                  |              |
|--|------------------|--------------|
| Name   | Units            | %            |
| <b>Major Unitholders</b>                                 |                  |              |
| First Covenant Pty Ltd                                   | 2,358,298        | 8.38         |
| Eliza Braithling Foundation Pty Ltd                      | 674,395          | 2.40         |
| Zanacorp Financial Group Pty Ltd                         | 560,950          | 1.99         |
| The Trust Company Pty Ltd                                | 560,646          | 1.99         |
| Sadler Management Pty Ltd                                | 431,500          | 1.53         |
| Afternoon Light Pty Ltd                                  | 362,005          | 1.29         |
| First Covenant Pty Ltd ATF Braithling Super Fund         | 356,245          | 1.27         |
| Mr Joseph Zanca & Mrs Szerenke Zanca                     | 345,200          | 1.23         |
| Mr Donald Gordon Mackenzie & Mrs Gwenneth Edna Mackenzie | 282,931          | 1.01         |
| Mr Stephen Richard Brown & Ms Dawn Elizabeth Rudduck     | 270,028          | 0.96         |
| Mr Neil James Richardson & Mrs Joanne Lesley Richardson  | 262,775          | 0.93         |
| Norwood Investments (Aust) Pty Ltd                       | 255,880          | 0.91         |
| Castodian No 1 Pty Limited                               | 235,955          | 0.84         |
| Jelly Pty Ltd ATF MacLeod Super Fund                     | 217,962          | 0.77         |
| Clarfield Pty Ltd ATF J A Dodd Staff SF                  | 215,750          | 0.77         |
| Mr John Fleming  | 204,368          | 0.73         |
| Carty & Co Pty Ltd                                       | 203,859          | 0.72         |
| Norman Chan Pty Ltd                                      | 198,490          | 0.71         |
| Gojnych Pty Ltd Gojnych Super Fund                       | 198,200          | 0.70         |
| S & G Frisken Pty Limited                                | 192,483          | 0.68         |
| <b>Top 20 Unitholders</b>                                | <b>8,387,919</b> | <b>29.82</b> |

*Source: WARF Unit Register as at 07 October 2020*

### 6.3 Historical Financial Performance

WARF is a newly set up fund that commenced trading activities from 24 January 2019. The first financial report of WARF was prepared for the period from 24 January 2019 to 30 June 2020 ("**18m Jun20**"). The below table summarises the financial performance from 18m Jun 2020, and the recent five months period to 30 November 2020 ("**YTD Nov20**").

| Watermark Absolute Return Fund   |       |              |               |              |               |
|----------------------------------|-------|--------------|---------------|--------------|---------------|
| Operating Results                |       |              |               |              |               |
| \$'000s                          | Notes | 18m Jun20    |               | YTD Nov20    |               |
|                                  |       | Actual       | %             | Actual       | %             |
| <b>Revenue</b>                   | 1     | 3,450        | 96.4%         | 2,798        | 97.1%         |
| Other Income                     | 2     | 127          | 3.6%          | 62           | 2.9%          |
| <b>Total Income</b>              |       | <b>3,577</b> | <b>100.0%</b> | <b>2,859</b> | <b>100.0%</b> |
| Management fee                   | 3     | 465          | 13.0%         | 589          | 19.2%         |
| Administration fee               |       | 851          | 23.8%         | 31           | 1.5%          |
| Dividend and Interest expense    |       | 1,484        | 41.5%         | 264          | 18.7%         |
| Stock loan fees                  | 4     | 249          | 7.0%          | 54           | 2.7%          |
| Professional fee                 |       | 49           | 1.4%          | 16           | 1.0%          |
| Other expenses                   | 5     | 221          | 6.2%          | 43           | 1.5%          |
| <b>Total Expenses</b>            |       | <b>3,319</b> | <b>92.8%</b>  | <b>996</b>   | <b>44.6%</b>  |
| <b>Reported EBITDA</b>           | 6     | <b>258</b>   | <b>7.2%</b>   | <b>1,863</b> | <b>55.4%</b>  |
| Income Tax Benefits              |       | -            | -             | -            | -             |
| <b>Reported Profit After Tax</b> | 6     | <b>258</b>   | <b>7.2%</b>   | <b>1,863</b> | <b>55.4%</b>  |

*Source: Historical Financial Statements*

We note the following with respect to the historical financial performance of WARF:

1. Revenue is generated from the gains of the long and short portfolio of the Fund.
2. Other income relates to sub-underwriting income paid in NZD (as shares were based in New Zealand) to Watermark and then onto WARF.
3. Management fees include the management fee and the performance fee paid to Fund's investment manager. Details of the fee structure are set out in Section 6.1.
4. Stock loan fees are charges payable for borrowing stocks for short selling activities.
5. Other expenses comprise compliance costs, registry fees, bank fees and other miscellaneous costs incurred by the fund.
6. The Reported EBITDA for 18m Jun2020 is \$258,000. The equivalent annualised Reported EBITDA is \$172,000 calculated on a pro-rata basis. Given that there were no income tax benefits received in the period, the annualised reported profit after tax is also \$172,000.

## 6.4 Financial Position

The financial position of WARF as at 30 June 2020 and 30 November 2020 is summarised below.

| Watermark Absolute Return Fund   |       |                       |                       |
|----------------------------------|-------|-----------------------|-----------------------|
| Historic Balance Sheet           |       |                       |                       |
| \$'000s                          | Notes | 30 Jun 2020<br>Actual | 30 Nov 2020<br>Actual |
| <b>Current Assets</b>            |       |                       |                       |
| Cash and cash equivalents        |       | 29,848                | 27,971                |
| Trade and other receivables      |       | 2,020                 | 57                    |
| Financial assets                 | 1     | 14,790                | 16,198                |
| <b>Total Current Assets</b>      |       | <b>46,658</b>         | <b>44,226</b>         |
| <b>Total Assets</b>              |       | <b>46,658</b>         | <b>44,226</b>         |
| <b>Current Liabilities</b>       |       |                       |                       |
| Borrowings                       | 2     | 73                    | -                     |
| Distribution payable             |       | 27                    | 5                     |
| Payables                         | 3     | 2,404                 | 571                   |
| Financial liabilities            | 1     | 13,567                | 15,100                |
| <b>Total Current Liabilities</b> |       | <b>16,071</b>         | <b>15,676</b>         |
| <b>Total Liabilities</b>         |       | <b>16,071</b>         | <b>15,676</b>         |
| <b>Net Assets</b>                |       | <b>30,587</b>         | <b>28,550</b>         |

*Source: Historical Financial Statements*

We note the following with respect to the historical financial position of WARF:

1. Financial assets are the long equity portfolio measured at fair value. Financial liabilities represent shares borrowed from external parties for the short portfolio and are measured at fair value.
2. Borrowings represent negative cash balances in the Fund's bank account. They are recognised through a journal entry at the end of the financial year. We have not been provided with the adjustments to the borrowings as at 30 November 2020.
3. Payables mainly relate to unsettled share purchases due to brokers and also include distributions payable to unitholders, management fees payable, short dividends payable and stock loans payable relating to short selling activities.

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## 7. Valuation Methodology

### 7.1 Overview

The best determinant of value is the price at which a business or a comparable business has been bought or sold in an arm's length transaction. In its absence, estimates of value are made using methodologies that infer value from other available evidence. These methodologies are discussed below.

### 7.2 Asset Based Methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- **Net assets & net tangible assets** : Net assets method is based on the value of the assets of the business less certain liabilities, at book values, adjusted to market value, while the Net Tangible Assets (NTA) of the business is a similar calculation but with an additional adjustment to exclude intangible assets from the calculation;
- **Orderly realisation of assets** : Orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders assuming the company is wound up in an orderly manner realising a reasonable market value for assets; and
- **Liquidation of assets**: Liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable (and are not expected to be profitable in the short to medium term), not actively trading or a significant proportion of a company's assets are liquid or held in investments that could be realised, or the business achieves lower profits than typical returns required by equity holders.

Asset based methods are typically considered in valuing listed investment companies.

### 7.3 Market Based Methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- **Analysis of a company's recent share trading history (Quoted Share Price Approach)**: Most recent share trading history provides strong evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. Importantly to rely on this methodology, a company's shares require sufficient liquidity;
- **Capitalisation of maintainable earnings**: Capitalisation of maintainable earnings method estimates fair market value by multiplying the company's future maintainable earnings by an appropriate capitalisation multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable and comparable companies have similar cost structures. This methodology is used for trading companies and is typically not applicable for listed investment companies; and
- **Industry specific methods**: Industry specific methods estimate market value using industry benchmarks. These methods generally provide less persuasive evidence on the market value of a company, as they may not account for company specific factors. Industry specific methods are only used as a cross check to the primary valuation methodology.

### 7.4 Discounted Cash Flow Method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence for a period of at least 5 years. The discounted cash flow method is commonly used to value early stage companies; projects with a finite life; or businesses with comprehensive and reliable cash flow forecasts.

## 7.5 Selection of Methodologies

Our selection of the valuation methodology is guided by RG111 and specifically RG111.64 which states that “an expert should use its skill and judgment to select the most appropriate methodology in its report. The expert must have a reasonable (or tenable) basis for choosing the valuation methodology”. Further, RG111.65 states that “an expert should, when possible, use more than one valuation methodology”.

In selecting our valuation methodology to value ALF and WARF New Units, we have considered:

- existing trading operations of ALF;
- existing trading operations of WARF;
- investment strategy or mandate currently employed by ALF and WARF;
- the historical results and current performance levels including revenue and earnings for both companies;
- actual performance for the year to 30 June 2020 and 5-months to 30 November 2020;
- unaudited net tangible asset backing of ALF and WARF on a monthly basis for the current financial year, up to and including as at 30 November 2020 as announced to the ASX on 14 October 2020;
- share price and volumes traded for ALF shares.
- representations by management in terms of the current and future trading performance of the underlying assets held by ALF, and strategic direction of the ALF;
- our understanding of the competitive position of the ALF in the industry;
- access to publicly available valuation benchmarks, comparable company information and comparable company transactions; and

As a publicly listed security on the ASX, one available methodology is a market-based valuation using the recent share price trading history of quoted shares.<sup>14</sup> We have considered this methodology appropriate for determining the market value of the shares in ALF. In our view, a liquid stock would typically be characterised by having 25%-50% of its total number of shares being traded over the course of a year, or about 0.5%-1.0% per week. As set out further in Section 8.3, we consider there is sufficient liquidity at certain periods in the recent share trading history of ALF to rely on this methodology to determine the value of shares, as the Company’s shares meet these guidelines over the course of the year however appear to be less frequently traded over the most recent 3 months prior to the announcement of the Proposed Transaction. Nonetheless, we still consider that the liquidity is sufficient for the Quoted Share Price approach (“QSP”) of ALF shares to be a potential indicator of their value. However, as the levels of liquidity in ALF shares have varied, we consider it prudent to utilise other methodologies along with the QSP.

We have also adopted an Asset Based approach based on the net realisable value of net assets, being the Net Asset Value (“NAV”), to determine the value of ALF and WARF. Given the nature of both the Company as a listed investment company and the Fund as an unlisted investment entity, and the monthly frequency with which net asset position is reported, which itself is calculated based on the market values of the underlying investments, we consider the asset based approach of NAV is an appropriate valuation methodology.

While the capitalisation of future maintainable earnings methodology is a commonly utilised methodology, we do not consider the application of this methodology as appropriate as:

- ALF currently holds long and short investment interests in various Australian listed entities, the market values of which are updated and available on a monthly basis, and is not a trading business;
- WARF similarly holds interests in ASX-listed securities with monthly NTA reporting;
- In considering the above facts, there is not a consistent level of earnings from which maintainable earnings could be determined.

We consider that the use of a discounted cash flow methodology is not appropriate due to the lack of available forecast cash flows, and the inherent uncertainty with respect to the timing and process that ALF or WARF will undertake to exit its current investments or enter into new investments.

<sup>14</sup> RG 111.69 states that an expert should consider “the quoted price for listed securities, where there is a liquid and active market”.

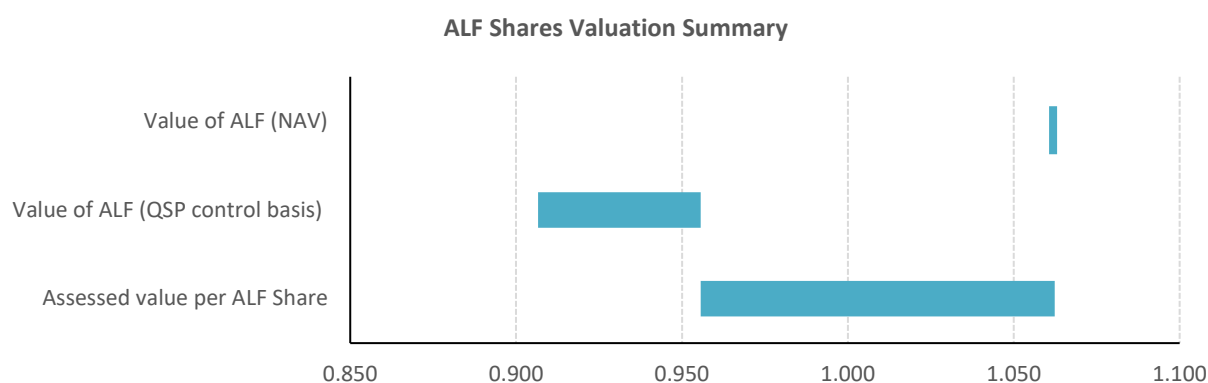
## 8. Value of ALF

### 8.1 Valuation Summary

We have determined the market value of an ordinary share in ALF on a controlling interest basis to be \$0.9556 to \$1.0416 per share. In determining this range of value, we specifically relied upon the results of two methodologies, as summarised below.

| Australian Leaders Fund Limited<br>Equity Value Summary (Cents per share) |               |               |
|---|---------------|---------------|
|   | Low           | High          |
| <b>Asset-Based Valuation – Net Asset Value (NAV)</b>                      |               |               |
| Value per Share on a Controlling Basis (cents per share)                  | 1.0619        | 1.0619        |
| <b>Market-Based Valuation – Quoted Share Price (QSP)</b>                  |               |               |
| Value per Share on a Controlling Basis (cents per share)                  | 0.9066        | 0.9556        |
| <b>Assessed Value of ALF on a Controlling Basis (cents per share)</b>     | <b>0.9556</b> | <b>1.0619</b> |

*Source: Titan Partners Corporate Finance Analysis*



The remainder of this section sets out our assessment of the above values for ALF shares.



## 8.2 Net Realisable Value of Net Assets Valuation

We have assessed the value of ALF shares on a controlling basis using an asset-based NAV methodology.

In determining the asset value of ALF, we have relied on management information with respect to the portfolio investments held by the Company as at 30 November 2020 and reports on net asset value of ALF disclosed to the ASX.

We have obtained management calculations of the NAV in ALF as at 30 November 2020 where the NTA after tax per share is \$1.083. Based on our review and analysis of the nature of the assets and liabilities held and discussions with management, we have applied adjustments for costs of the Proposed Transaction which are to be borne by ALF, and an adjustment to the realisable value of Company's deferred tax assets. Set out below is our valuation assessment of ALF based on the NAV methodology.

| Australian Leaders Fund Limited                            |      |                |
|--|------|----------------|
| Net Assets Value   |      |                |
| \$'000s  | Note |                |
| Net Assets Value (30 November 2020)                        |      | 224,819        |
| Less: Transaction costs                                    | 1    | (990)          |
| Less: IMA Termination Costs                                | 2    | (2,500)        |
| Less: Operating Costs (net of tax effect)                  | 3    | (526)          |
| Less: Deferred tax asset adjustment                        | 4    | (16,848)       |
| <b>Adjusted Net Assets Value</b>                           |      | <b>203,955</b> |
| Shares Outstanding (thousands)                             |      | 192,074        |
| <b>Net Assets Value per Share (\$) – Controlling Basis</b> |      | <b>1.0619</b>  |

*Source: ALF NTA announcement, Scheme Booklet and Titan Partners Corporate Finance Analysis*

We note the following with respect to the net tangible assets per share calculation above:

1. Adjustment for a revised estimate of transaction costs of \$990,000 as advised by Mr Braitling. The initial estimate of the transaction costs was \$600,000 per the Heads of Agreement from the 28 Sep Announcement. The revised estimate includes share registry costs and insurance.
2. Adjustment for the agreed termination fee for the IMA. The existing term of IMA is 25 years. The termination fee is to compensate the Manager for early termination arising from implementation of the Scheme.
3. Adjustment for estimated operating costs until the expected implementation date of the Scheme. Such costs are adjusted for the 30% tax saving calculated based on the resultant reduction in net profit and income tax payable as a result of the additional expenses being incurred.
4. The deferred tax asset ("DTA") arises from significant trading losses accumulated from prior years. The asset can only be realised by offsetting future taxable profits to reduce the income tax payable in future periods. We have discussed with the current tax advisors and management of ALF and we are advised that current value of the DTA will require sustained strong performance for some time to utilise given the size of the DTA balance. We consider the balance of DTA cannot be fully realisable nor can it be immediately recoverable. The management of ALF has announced on 13 November 2020 the planned write off of the DTA balance. Therefore, we have adjusted the DTA to a nil value.

We have determined the NAV of ALF on a net realisable value of assets basis is \$1.0619 per share.

## 8.3 Market-Based Valuation – Recent Share Price

In addition to the calculation of the value of ALF shares above based on net asset value, we have reviewed the value of ALF shares on a minority basis using a recent share price and applied a control premium to derive the value of an ALF share on controlling basis. The market value of a company's shares as quoted on public exchange such as the ASX is reflective of a minority interest. Typically, a minority interest does not have significant control for the holder to have influence in the operations and value of that company. RG111.11 states that when considering the value of a company's shares for the purposes of a takeover bid, the expert should assume 100% ownership of the target and it is inappropriate to apply a discount for a minority or portfolio parcel of shares. Accordingly, a premium for control is expected to be paid by the purchaser of those shares due to advantages they will receive should they obtain control of the company. These advantages can include:

- Control over operational decision making and the strategic direction of the company;
- Ability to deal with the company assets as the purchaser sees fit;
- Access to underlying cash flows through control over dividend policies; and
- Potential access to accumulated tax losses.

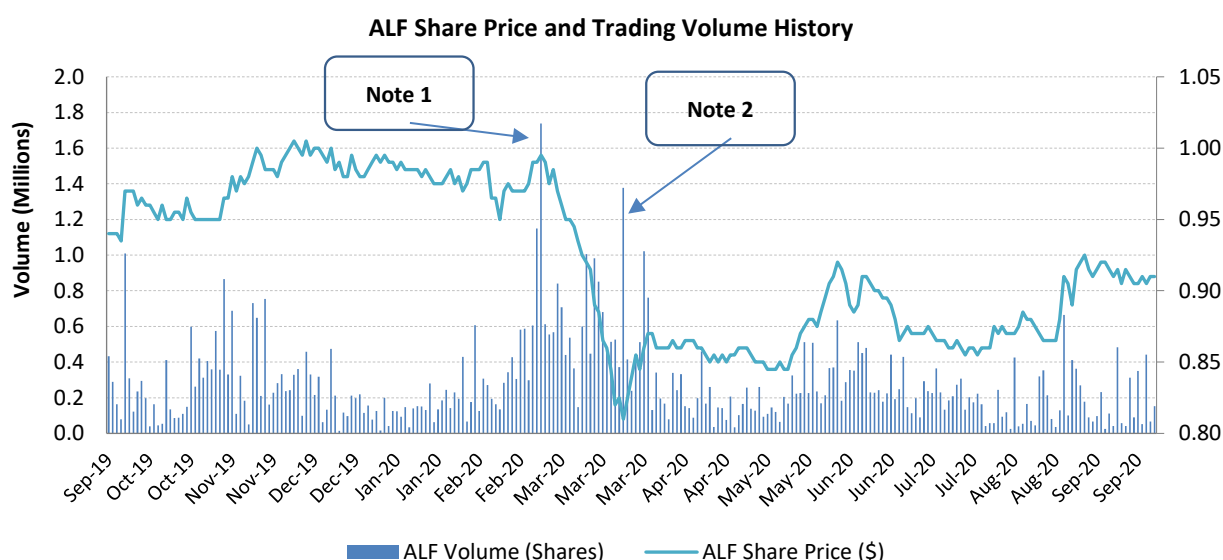
Based on the requirements of RG111, we have calculated the market price of an ALF share by including a premium for control. Firstly, we calculated the quoted market price on a minority interest basis based on share prices quoted on the ASX, then added a premium for control to calculate the market price value on a controlling basis.

### ***Quoted Share Price – Minority Interest Basis***

The determination of a market price of a listed share is typically based on the share price prior to the announcement of a transaction. The ASX announcement of the Proposed Transaction was filed and released on 28 September 2020, hence our analysis is as at 27 September 2020, being the day before the announcement. As 27 September 2020 falls on a weekend and a trading halt has been placed on 24 and 25 September 2020, the last trading day on the ASX prior to the announcement is 23 September 2020.

To determine whether recent share price is an appropriate methodology to value ALF shares, we analysed the recent share trading history and specifically the liquidity in respect of the trading in those shares. Set out below is the trading performance of ALF shares for the twelve months to 23 September 2020. ALF shares are regularly traded on the ASX, with trades being recorded on 255 days during the 365 day period.

The following chart summarises the share price movements and volume traded over the year to 23 September 2020.



The daily price of ALF shares over the past 12 months has ranged from a low of \$0.810 in March 2020 to a high of \$1.005 in November 2019. During this period a number of announcements were made to the market as well as share buybacks and dividend distribution to shareholders. The key announcements are set out in Section 5.4 and full list of all announcements since 1 July 2020 are set out at Appendix 5. We note the below with respect to the observed trading history:

1. There was significant trading in ALF shares on 24 February 2020, with over 1.74 million shares traded. We note the Company announced its daily share buyback notice, which is part of the 12 month on-market share buy-back program of ALF announced on 7 November 2019. The increased volumes coincided with significant market volatility in February and March 2020 due to the onset of the COVID-19 pandemic.
2. There was significant trading in ALF shares on 23 March 2020, with over 1.38 million shares traded. We note the Company announced its weekly month to date performance.

At the close of trading on 23 September 2020, being the last trading day of ALF shares on the ASX prior to the 28 Sep Announcement with respect to the Proposed Transaction, the ALF share price was \$0.91.

Given the observed movements in the ALF share price around the announcement of the Proposed Transaction, we calculated and assessed the volume weighted average price ("VWAP") of the shares over a period of 1, 3, 6 and 12 months prior to the announcement date of 28 September. The following tables summarises our VWAP calculations for each of these periods.

| Australian Leaders Fund Limited<br>Liquidity Analysis |                    |                        |            |                |                 |                |
|---|--------------------|------------------------|------------|----------------|-----------------|----------------|
| Period  | Volume<br>(Shares) | Volume<br>(% of issue) | VWAP<br>\$ | Price<br>(Low) | Price<br>(High) | Days<br>Traded |
| 1 Day (23 September 2020)                             | 152,582            | 0.1%                   | 0.9100     | 0.910          | 0.915           | 1              |
| 1 Week (17 September 2020 to 23 September 2020)       | 1,063,735          | 0.6%                   | 0.9063     | 0.905          | 0.910           | 5              |
| 1 Month (24 August 2020 to 23 September 2020)         | 4,699,472          | 2.4%                   | 0.9101     | 0.890          | 0.925           | 23             |
| 3 Months (24 June 2020 to 23 September 2020)          | 12,705,281         | 6.6%                   | 0.8845     | 0.855          | 0.925           | 66             |
| 6 Months (24 March 2020 to 23 September 2020)         | 29,459,804         | 15.3%                  | 0.8777     | 0.825          | 0.925           | 129            |
| 12 Months (24 September 2019 to 23 September 2020)    | 72,086,773         | 37.5%                  | 0.9240     | 0.810          | 1.005           | 255            |

**Source:** S&P Capital IQ, Titan Partners Corporate Finance Analysis

For us to rely upon the ASX listed share price as a primary methodology as an indication of market value, there needs to be a 'deep' market in the shares. RG111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 25% to 50% of a company's securities are traded on an annual basis;
- There must be a sufficiently large spread of shareholders to enable the shares to trade on the stock exchange in an orderly manner; and
- There are no significant but unexplained movements in share price.

As shown above in the recent share trading history, ALF shares have been actively traded with 37.5% of shares on issue being traded over a twelve month period and 15.3% of the Company's current issued capital being traded over a six month period. ALF announced a 12 month on-market share buy-back program in November 2019 and there was a total \$18.68 million shares bought back since the program commenced. The share buy-back program has increased the volume of shares traded and improved liquidity during the period in which it was active. The price of ALF shares on ASX is also likely to have traded at higher prices due to the implementation of the share buy-back program.

In our opinion, the trading of ALF's shares meets the above criteria of a 'deep' market, therefore we utilised this market-based valuation methodology along with our NAV valuation. Based on our analysis of the share trading history of ALF and with reference to the above characteristics, we note;

- ALF shares have been traded on every single trading day in the year;
- With over 37% of ALF shares traded on an annual basis and over 15% traded over a six month period, we consider that there is sufficient liquidity to rely solely on the share price as an indicator of value;
- As set out in Section 5.3, there is a wide spread of shareholders and no shareholders hold significant stake in the Company.

Based on the analysis above and given the share price of ALF shares, we have determined the value of ALF shares, based on quoted market pricing, between \$0.884 (being the 3 month VWAP to 23 September 2020) to \$0.910 (being the 1 month VWAP to 23 September 2020). This range, by definition, represents the value of shares on a minority basis.

### **Control Premium**

As discussed above, we are required under RG111 to assess the Proposed Transaction assuming 100% ownership of ALF. Accordingly a premium for control must be applied, which reflects the additional value that attaches to a controlling interest in the Company over a minority or portfolio interest as represented by the share price.

The control premium varies from transaction to transaction and is subject to a number of factors, including:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of business opportunities not currently being exploited;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the target's securities.

In our assessment of control premium for ALF, we have reviewed recent corporate transactions involving Australian Listed Investment Companies ("LIC") as summarised in the following table.

| Date Announced | Target                                | Bidder                                      | Offer Consideration |        |
|----------------|---------------------------------------|---|---------------------|--------|
|                |                                       |   | Low                 | High   |
| 13/12/2016     | Century Australia Investments         | Century Australia Investments <sup>15</sup> | 0.9081              | 0.9127 |
| 30/08/2018     | Wealth Defender Equities              | WAM Capital                                 | 0.96                | 1.00   |
| 13/11/2018     | Century Australia Investments         | WAM Leaders                                 | 0.91                | 1.02   |
| 20/12/2018     | Watermark Market Neutral Fund Limited | Watermark Absolute Return Fund              | 0.87                | 0.87   |
|                | Watermark Global Leaders Fund Limited |   | 1.00                | 1.00   |
| 03/06/2019     | Mercantile Investment Company Limited | Sandon Capital Investments Limited          | 0.1788              | 0.1847 |
| 17/02/2020     | Ellerston Global Investments          | Ellerston Global Mid Cap Fund.              | 0.95                | 0.97   |

**Source:** ASX Announcements, S&P Capital IQ, Titan Partners Corporate Finance Analysis

Further details of each of the takeover premium under each of the recent corporate transactions in the LIC sector listed above are set out in the table below.

<sup>15</sup> Century Australia Investments Limited ("CYA") was approached by Wilson Asset Management and proposed to implement a number of transactions comprising a share buy-back, special dividend, capital raising by way of new equity issue and change in investment manager.

| Target                                   | Target VWAP<br>(High Value) | Target NTA<br>(High Value) | Takeover<br>Premium<br>(High Value<br>Consideration<br>against Target<br>VWAP) | Takeover<br>Premium<br>(High Value<br>Consideration<br>against Target<br>NTA) |
|--|-----------------------------|----------------------------|--|---|
| Century Australia Investments (Dec 2016) | 0.848                       | 0.9426                     | 7.63%  | -3.17%  |
| Wealth Defender Equities                 | 0.87                        | 0.9474                     | 14.94%   | 5.55%   |
| Century Australia Investments (Nov 2018) | 1.02                        | 1.00                       | 0.00%  | 2.00%   |
| Watermark Market Neutral Fund            | 0.85                        | 0.91                       | 2.35%  | -4.40%  |
| Watermark Global Leaders Fund Limited    | 0.97                        | 1.03                       | 3.09%  | -2.91%  |
| Mercantile Investment Company Limited    | 0.1719                      | 0.1891                     | 7.45%  | -2.33%  |
| Ellerston Global Investments             | 0.87                        | 0.9598                     | 11.49%   | 1.06%   |
| <b>Average</b>                           |                             |                            | <b>6.71%</b>   | <b>-0.60%</b>   |

*Source: ASX Announcements, S&P Capital IQ, Titan Partners Corporate Finance Analysis*

We note at the upper end of the value ranges set out above, all except one of the identified transactions were announced with an offer consideration at a premium to the share price (VWAP) prior to announcement of the respective transaction, with the remaining transaction consideration being offered at the target's VWAP. The observed premiums to target's VWAP ranged from 0% to 14.9% for those transactions and at an average of 6.71% where a takeover premium was offered by the respective bidder. In contrast, we note the comparable transactions has included minimum premium to the NTA of target. There is a minimal acquisition premium offered by the bidder over the value of the target when valuation methodologies other than the VWAP were taken into account.

With respect to control premium to be paid for control of a LIC, we have considered the following factors:

- The relative ease with which an investor could recreate the investment portfolio of the LIC based on publicly available information;
- Minimal cost in replicating the LICs portfolio, particularly with respect to ASX listed securities;
- The comparative LIC transactions listed above; and
- Current market uncertainty under the impact of the COVID-19 pandemic.

ALF's equity investment comprises a long and short portfolio of listed investments and a cash position to balance market exposure and hold uninvested funds. We consider there is some value in the ability to exercise control over these investments, and accordingly should be reflected in the control premium adopted in assessing the value of ALF shares on a controlling basis. Based on the above, we have assessed and adopted a control premium of 2.5% to 5% for ALF, being below that typically applied to trading businesses are not LICs.

#### **Valuation – Controlling Basis**

We applied the above control premium to our assessed value of ALF shares on a minority basis, to derive the control basis valuation as set out below.

| Australian Leaders Fund Limited<br>Market-based Valuation per Share (Controlling Basis) |               |               |
|---|---------------|---------------|
|   | Low           | High          |
| Value per Share on a Minority Basis   | 0.884         | 0.910         |
| Control Premium   | 2.5%          | 5.0%          |
| <b>Value per Share on a Controlling Basis</b>   | <b>0.9066</b> | <b>0.9556</b> |

*Source: Titan Partners Corporate Finance Analysis*

#### 8.4 Review of NTA to Share Price

The following schedule shows the movements of ALF's share price and ALF's NTA for the 12 month period from November 2019 to October 2020. As we are advised the majority of the ALF portfolio was liquidated during November 2020, the following analysis is based upon the prior 12 month period.

| Australian Leaders Fund Limited       |      |      |      |      |       |      |      |      |      |      |      |      |
|---------------------------------------|------|------|------|------|-------|------|------|------|------|------|------|------|
| Share Price to NTA per Share Analysis |      |      |      |      |       |      |      |      |      |      |      |      |
| \$                                    | 2019 |      | 2020 |      |       |      |      |      |      |      |      |      |
|                                       | Nov  | Dec  | Jan  | Feb  | Mar   | Apr  | May  | Jun  | Jul  | Aug  | Sep  | Oct  |
| NTA per share                         | 1.1  | 1.09 | 1.11 | 1.11 | 1.055 | 1.06 | 1.05 | 1.04 | 1.04 | 1.05 | 1.05 | 1.08 |
| Monthly VWAP                          | 0.99 | 0.99 | 0.98 | 0.98 | 0.88  | 0.86 | 0.86 | 0.90 | 0.86 | 0.89 | 0.93 | 0.96 |
| Premium (discount) to NTA             | -10% | -9%  | -12% | -12% | -17%  | -19% | -18% | -14% | -17% | -15% | -12% | -11% |
| Month End Share Price                 | 1.01 | 0.99 | 0.99 | 0.97 | 0.87  | 0.86 | 0.88 | 0.87 | 0.87 | 0.93 | 0.95 | 0.98 |
| Premium (discount) to NTA             | -9%  | -9%  | -11% | -13% | -18%  | -19% | -17% | -16% | -16% | -12% | -10% | -10% |

**Source:** S&P Capital IQ, Titan Partners Corporate Finance Analysis

As shown above, the Company's shares have consistently traded on the ASX at a discount to its reported NTA per share in the period analysed. On average, the month end share price of ALF is approximately 14% lower than the corresponding month's reported NTA per share. When compared to monthly VWAP of ALF shares, the discount is in the range from 9% to 19%. In addition, we also have considered the possible price distortion resulting from ALF's share buy-back in the last 12 months.

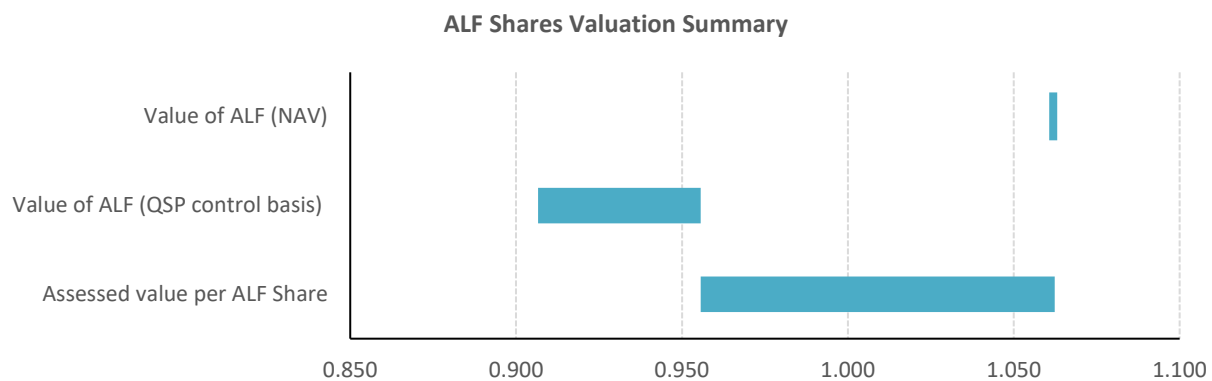
Therefore, we consider that a combination of the results from both the Quoted Share Price Approach and Net Asset Value Approach set out in Section 8.2 above is most appropriate in assessing the valuation of ALF shares.

#### 8.5 Assessed Valuation of ALF Shares

Based on our analysis set out in Section 8.2 and 8.3 above, we have assessed the value of the ALF shares, on a controlling basis using a combination of both the NAV and QSP approaches. In forming our conclusion on the assessed valuation range for ALF shares, we have considered our findings set out above and in particular:

- The share price of ALF on both a monthly VWAP and month-end closing price basis has consistently traded at a significant discount to the NTA value over the 12 months to October 2020, being up to 14% below the reported NTA as announced by the Company via ASX announcements.
- While the share price represents market pricing of ALF shares and the amount at which shareholders can realise their interests in the Company, its value is not equivalent to the value of the assets held by the Company and accordingly cannot be solely relied upon in forming a view on the value of ALF shares. In particular, we do not consider the low end of the range under our quote share price methodology of 90.7 cents per ALF share to be reflective of the value of the Company.
- Given the investment strategy of ALF is focused on ASX-listed securities, market prices of the underlying investments are reflective of the realisable value of the investment assets held by the Company, which are reflected in the NAV methodology set out in Section 8.2 above.
- In contrast, the current realisable value of the deferred tax assets is dependent on the available taxable profits at the present time. As at 30 November 2020, the Company has not generated sufficiently large profits since 30 June 2020 to utilise the circa \$16 million of DTA which remains on the balance sheet. The management of ALF has announced the Company's intention to write off the current carrying value of the DTA in accordance with advice from the external tax advisors to ALF.
- Therefore, we have adopted the low end of our valuation range under the NAV methodology of \$1.0619 per share and the high end of our quote share price methodology of 95.56 cents per share, as our assessed value of ALF shares for the purposes for the Proposed Transaction.

Our assessed value of shares in ALF is summarised in the chart and table as follows:



| Australian Leaders Fund Limited                        |               |               |
|--|---------------|---------------|
| Assessed Value per Share (Controlling Basis)           |               |               |
|  | Low           | High          |
| Value per Share - Net Asset Value                      | 1.0619        | 1.0619        |
| Value per Share - Quoted Share Price                   | 0.9066        | 0.9556        |
| <b>Assessed Value per Share on a Controlling Basis</b> | <b>0.9556</b> | <b>1.0619</b> |

*Source: Titan Partners Corporate Finance Analysis*

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## 9. Value of Consideration

### 9.1 Valuation Summary

We have determined the market value of the consideration under the Proposed Transaction in WARF's New Units and the proposed dividend, on a minority interest basis, to be in the range of \$1.0462 to \$1.0753. In determining this range of value, we specifically relied upon the asset based valuation methodology, as summarised below.

| Watermark Absolute Return Fund<br>Value of Consideration Summary (Cents per share)                            |               |               |
|---|---------------|---------------|
|   | Low           | High          |
| <b>Asset-Based Valuation</b>  |               |               |
| Value per WARF New Unit on a Minority Interest Basis  | 1.0162        | 1.0453        |
| <b>Assessed Value of Consideration in WARF New Units offered for each ALF share (Minority Interest Basis)</b> | <b>1.0162</b> | <b>1.0453</b> |
| Value of Proposed dividend  | 0.03          | 0.03          |
| <b>Total Value of Consideration to ALF Shareholders</b>   | <b>1.0462</b> | <b>1.0753</b> |

Source: Titan Partners Corporate Finance Analysis

The remainder of this section sets out our assessment of the above values for WARF New Units.

### 9.2 Net Tangible Assets / Net Realisable Value Valuation

We have reviewed the value of WARF New Units using an asset based methodology. In determining the value of WARF, we have relied on management information with respect to the net tangible asset value of the portfolio held by WARF as at 30 November 2020.

Based on our review and analysis of the nature of the assets and liabilities held and discussions with management, we have applied adjustments to the NTA of WARF to calculate the value of the New Units to be issued. Set out below is our valuation assessment of WARF based on an asset methodology.

| Watermark Absolute Return Fund<br>Adjusted Net Asset Value (Controlling Basis) |      |                |                |
|--|------|----------------|----------------|
| \$'000s  | Note | Low            | High           |
| WARF Net Tangible Assets (30 November 2020)                                    |      | 28,550         | 28,550         |
| ALF Net Assets Value Transferred to WARF                                       | 1    | 198,093        | 198,093        |
| Plus: First year Management Fee waived   | 2    | -              | 1,983          |
| <b>WARF Adjusted Net Asset Value</b>   |      | <b>226,643</b> | <b>228,624</b> |
| Existing Units Issued in WARF (thousands) as at 21 December                    |      | 26,645         | 26,645         |
| New Units Issued to ALF Shareholders (thousands)                               | 3    | 192,074        | 192,074        |
| Total Units in WARF post the Proposed Transaction                              |      | 218,718        | 218,718        |
| <b>Adjusted Net Asset Value per New Unit (\$)</b>                              |      | <b>1.0362</b>  | <b>1.0453</b>  |
| Less: Early Redemption Fee   | 4    | 0.02           | -              |
| <b>Adjusted Net Asset Value per units (\$) – Controlling Basis</b>             |      | <b>1.0162</b>  | <b>1.0453</b>  |

Source: Titan Partners Corporate Finance Analysis



We note the following with respect to the Net Asset Value of WARF New Units calculation above:

1. Upon successfully implementing the Scheme, we note the directors anticipate current outstanding liabilities will be settled prior to the implementation date and the remaining assets (excluding the retention amount) of ALF will be transferred to WARF. The net asset value after adjustments for the Proposed Transaction as outlined at Section 8.2 represents the value of assets to be transferred. As the proposed dividend under the Proposed Transaction will be paid to ALF Shareholders in cash as outlined in Section 4 above, we deduct the total dividends from the total value of the ALF Adjusted NAV previously calculated to determine the ALF NAV transferred to WARF. We also adjust for the estimated retention amount of \$100,000 for expenses in connection with the Proposed Transaction which are expected to be paid by ALF following implementation of the Proposed Scheme including accounting costs and filing fees, as follows:

| Australian Leaders Fund Limited<br>Net Asset Value Transferred to WARF |                |
|--|----------------|
| \$'000s  |                |
| <b>Adjusted Net Assets Value</b>                                       | <b>203,955</b> |
| Less: Proposed Dividend  | (5,762)        |
| Less: Retention Amount   | (100)          |
| <b>Net Assets Value Transferred to WARF</b>                            | <b>198,093</b> |

*Source: ALF Management and Titan Partners Corporate Finance Analysis*

2. Watermark as the investment manager of WARF has agreed that there will be no management fee charged on the new units issued under the proposed transaction for the first year after issuance. We consider it a benefit to the new unitholder in WARF and have included it in the higher end of our value assuming the maximum value of benefit would be realised. We have excluded it in the lower end of value assuming there would be no benefit received when units are redeemed in the first year. The agreed management fee between WARF and Watermark is 1% per annum of the net asset value, calculated monthly. We have estimated the management fee based on the adjusted net asset value discussed in Note 1.
3. Upon completion of the Scheme, a new class of units will be issued in WARF to the existing ALF shareholders on a one-to-one basis. The existing shareholding details are set out in Section 5.3.
4. As part of the Scheme, an early redemption fee is charged by the investment manager, Watermark for new units issued and redeemed within one year of issuance. The redemption fee is the lower of 2 cents and 2% to the net asset value redeemed.

We have determined the value of WARF on an adjusted net asset value basis is between \$1.0093 and \$1.0383 per WARF New Unit on a controlling basis.

Further, we assessed a discount for minority interest, being the inverse of a control premium, to the value of WARF based on net asset value per WARF New Unit on a controlling basis calculated above, to derive the value of WARF New Units on minority basis. The value of offer consideration in WARF New Units on a minority basis as set out below:

| Watermark Absolute Return Fund<br>Adjusted Net Asset Value (Minority Basis) |      |               |               |
|---|------|---------------|---------------|
| Cents per Share   | Note | Low           | High          |
| Adjusted Net Asset Value (\$) – Controlling Basis                           |      | 1.0162        | 1.0453        |
| Less: Control Premium   | 1    | 0.00%         | 0.00%         |
| Adjusted Net Asset Value (\$) – Minority Basis                              |      | 1.0162        | 1.0453        |
| <b>Value of Offer Consideration in WARF New Units - Minority Basis</b>      |      | <b>1.0162</b> | <b>1.0453</b> |
| <b>Value of Proposed Dividend</b>   | 2    | 0.03          | 0.03          |
| <b>Total Value of Consideration to ALF Shareholders</b>                     |      | <b>1.0462</b> | <b>1.0753</b> |

*Source: Titan Partners Corporate Finance Analysis*

We note the following with respect to the net asset value per unit calculation above:

1. The value derived for WARF under the net asset value methodology is by definition on a controlling interest basis, as it reflects 100% of the assets and liabilities held on the WARF balance sheet. Upon completion of the Scheme, ALF shareholders will effectively receive a minority interest in WARF by way of WARF New Units in the Fund. We have therefore considered the relevant minority discount to apply to the controlling basis value of WARF, consistent with requirements under RG111 in the assessment of the consideration offered for ALF shares under the Proposed Transaction.

We have considered the following factors and determined the minority discount applicable to be nominal:

(a) The Scheme involves restructuring from the existing LIC to an unlisted trust. Members under an unlisted trust have greater power to remove the responsible entity by passing an extraordinary resolution through members' meeting under s601FM of the Corporation Act. In contrast, the current IMA between Watermark and ALF is legally contracted for a total term of 25 years as set out previously in Section 5.2 above.

(b) The IMA between WARF and Watermark can be terminated with 30 business days' written notice.

(c) Therefore, ALF shareholders are currently unable to replace Watermark as its investment manager, while as members in WARF following the Proposed Transaction will have greater control over the management of their investments via the Fund should they collectively seek to appoint an alternative manager.

(d) Investors in WARF may realise their investment under the Redemption Facility at a price based on the prevailing net asset value, less a buy/sell margin and applicable transaction costs. As set out above, the net asset value calculated is on a controlling basis, with no minority discount applied to the pricing mechanism under the Redemption Facility. As such, a minority holder of WARF units may realise this controlling basis value, thus a minority discount is not applicable to the value of WARF.

2. Proposed fully franked dividend to be paid to ALF shareholders upon implementation of the Proposed Scheme per Section 4 above, which we are advised by ALF Management will be at least 3 cents per share as outlined in the Scheme Booklet. As the dividend will be paid in cash from the available reserves of ALF upon implementation of the Proposed Scheme, the dividend forms part of the consideration receivable by ALF Shareholders under the Proposed Transaction.

We have determined the value of WARF New Units to be issued as consideration for the Proposed Transaction, under an asset based methodology, is from between \$1.0462 to \$1.0753 per share on minority interest basis.

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## 10. Evaluation of Proposed Transaction

### 10.1 Approach

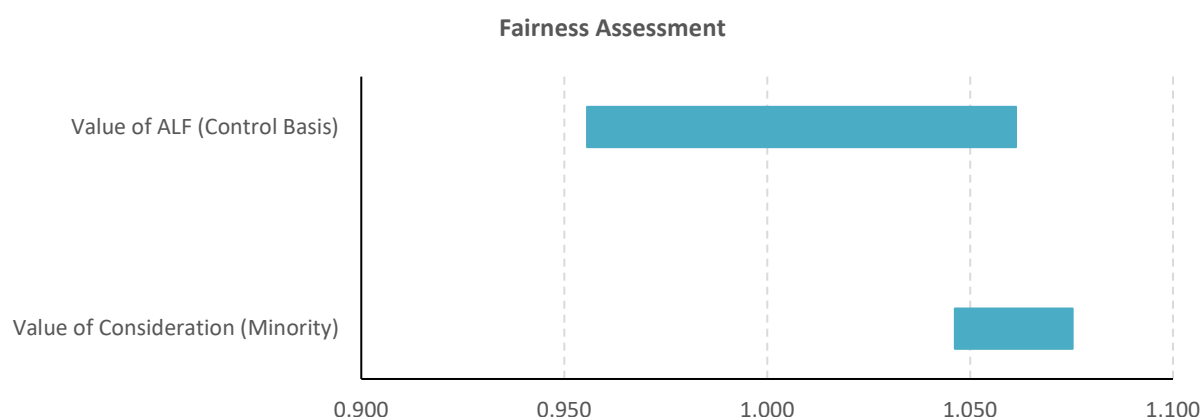
We have adopted the guidelines set out in Regulatory Guides issued by ASIC including RG74 and RG111, which govern the content and use of experts' reports in corporate transactions.

The ASIC regulations require an independent expert to consider takeover proposals under the concepts of "fairness" and "reasonableness", in accordance with RG111.10. We therefore separately consider whether the Proposed Transaction is "fair" and "reasonable" from the perspective of the Shareholders.

### 10.2 Fair

RG111 considers that a transaction is fair if the value of the offer price or consideration received is greater than the value of the securities subject to the offer. The comparison should be undertaken assuming a knowledgeable, willing but not anxious buyer and knowledgeable, willing but not anxious seller, where both parties act on an arm's length basis.

As summarised in the following table, the assessed value per ALF share on a controlling basis is between \$0.9556 and \$1.0619. The value of the consideration offered by WARF is \$1.0462 to \$1.0753. As the value of the consideration offered is within our assessed range of value for ALF shares on a controlling basis, we therefore consider the Proposed Transaction is 'fair' for the Shareholders.



| Australian Leaders Fund Limited<br>Fairness Assessment |        |        |
|--|--------|--------|
|  | Low    | High   |
| Assessed Value per ALF Shares                          | 0.9556 | 1.0619 |
| Total Offer Consideration (per ALF share)              | 1.0462 | 1.0753 |

**Source:** Titan Partners Corporate Finance Analysis

### 10.3 Reasonable

RG111 states that a transaction is also “reasonable” if it is “fair”. It also states a transaction may be considered “reasonable” if not “fair”, where an expert concludes there are sufficient reasons to proceed with a transaction in the absence of a higher offer.

As we have assessed the Proposed Transaction as “Fair” per Section 10.2 above, we are therefore able to conclude that it is “reasonable” under guidelines set out in RG111. Nevertheless to assist ALF shareholders, we have also reviewed the advantages and disadvantages of the Proposed Transaction below.

### 10.4 Advantages

In accordance with RG111, we assess the qualitative aspects of the Proposed Transaction to identify the advantages and disadvantages to the Shareholders upon Completion.

#### ***Redemption Facility***

As the Company is currently a listed entity, Shareholders may only exit their investment in ALF by trading their shares via the ASX at the prevailing market price. However, as shown in our analysis set out in Section 8.4, the share price as measured by monthly VWAP, has consistently remained below and at an average discount of 14% of the corresponding announced NTA of the Company during each of the past 12 months to October 2020. Therefore, a holder of ALF would have received a price below the NTA value if their shares were sold on the open market.

Under the Proposed Transaction, ALF shareholders will receive WARF New Units in return for their existing shares. A redemption facility currently provided to existing WARF unitholders will also be made available to ALF shareholder whom will hold WARF New Units, whereby holders will receive a price based on the most recent NTA of the Fund less transaction buy/sell spread of 0.3%.

We note share price of ALF as at the end of October 2020 has increased by 7.5% compared to that before announcement of the Scheme (on 28 September 2020). Further trading volumes in the month of October 2020 (the month immediately after announcement of the Proposed Transaction) total more than \$10 million, being approximately double the monthly trading volume of the three months prior to announcement of the Proposed Scheme. We consider the announcement of the Proposed Transaction positively received by the market and is likely to be a contributing factor to the share price increase in the recent months. Nevertheless the current share price<sup>16</sup> still remains below the Net Asset Value as at 30 November 2020<sup>17</sup> set out in Section 8.2.

The ability for current ALF Shareholders to redeem their investment at a price close to the prevailing NTA materially exceeds the share price (being historically below NTA) at which Shareholders have previously been able to realise their investments in the Company and is an advantage to ALF Shareholders.

#### ***Management Fee Waiver***

ALF Shareholders will receive New Units in WARF, being a separate class of security to existing WARF investors, in return for their ALF shares under the Proposed Transaction. The WARF New Units are subject to a discounted investment management fee from Watermark for the first year after completion of the Proposed Transaction, which represents a cost saving and thereby increases the returns attributable to ALF Shareholders, assuming all other impacts remain unchanged. As set out in our analysis in Section 9.2 above, the saving is estimated at \$2 million based on the reported NTA of ALF as at 30 November 2020. After the first year, the current WARF management fee of 1% and a performance fee of 20% would apply to the WARF New Units, which is consistent with the existing fee structure Watermark applies for ALF under the IMA. The management fee waiver in the first year is an advantage to ALF Shareholders.

<sup>16</sup> Closing share price of ALF as at 7 December 2020 is \$1.01.

<sup>17</sup> Net Asset Value per share as at 30 November 2020 is \$1.1920 before tax and \$1.0828 after tax & DTA/DTL.

### ***Increase in Size and Scale***

If ALF Shareholders approve the Proposed Transaction, the effective result is a merger between the Company and the Fund, whereby existing ALF Shareholders and WARF unitholders will collectively own an enlarged pool of combined assets. Based on the reported NTA as at 30 November 2020, the NTA will increase from the reported post-tax NTA for ALF of approximately \$200 million to a pro-forma NTA of \$230 million as set out in Section 9.2 above.

The primary advantage of being a larger investment vehicle is the potential to reduce cost as management expenses are spread across a greater amount of funds under management, reducing the operating and administrative costs as represented by the management expense ratio. Management expenses are discussed further below. Further, the combined ALF-WARF portfolio will have greater ability to diversify investments, invest in larger entities, or hold more substantial positions in investments. The impact of increase in size and scale is an advantage of the Proposed Transaction.

### ***Termination Fee***

ALF has agreed with Watermark under the Proposed Transaction to terminate the current IMA signed between the parties with approximately 8 years remaining for a lump sum termination fee of \$2.5 million. By way of comparison, the current annual management fee under the IMA calculated as 1% of the NAV of the Company is equivalent to approximately \$2 million per annum, based on the NTA of approximately \$200 million as at 30 November 2020 announced to the ASX and summarised in Section 8.2 above. The agreed termination fee is considerably less than the present value of estimated management fees for the remaining years (assuming the NAV remains at a similar level) the Company is otherwise contracted to pay the Manager. The negotiation of a significantly reduced termination fee to terminate the IMA is an advantage of the Proposed Transaction.

### ***Reduced costs***

The Proposed Transaction if approved by the Shareholders will result in the Company ceasing to operate as an ASX-listed investment company, as WARF is an unlisted investment fund. Current costs of ALF with respect to ongoing regulatory and compliance to operate as a listed entity would no longer be required, including ASX listing costs, disclosure including compliance with continuous disclosure requirements of the ASX, and the executive time to address such matters. According to the FY2020 financial reports of ALF, a total expense of approximately \$420,000 was spent in relation to director fee, ASX related listing costs and share registry fee. Assuming the same performance of the underlying investment assets, a reduction in operating costs improve overall future profitability attributable to current ALF Shareholders under the operating structure in the Proposed Transaction.

If the Proposed Transaction is approved, management forecast that there will be a reduction in the management expense ratio (“MER”). The MER is the ratio of the management and operating costs, as a percentage of the net asset value. Per Section 8.6 of the Scheme Booklet, Watermark will cap the MER at 0.3% of NAV of the WARF New Units. The reduced operating costs of the new structure is an advantage of the Proposed Transaction.

### ***Consistency of Investment Strategy***

Watermark is currently the appointed investment manager of the Company and is also the investment manager of WARF as appointed by the Responsible Entity. Under the Proposed Transaction, ALF shareholders will retain access to an investment managed by Watermark and therefore access to the same investment professionals of Watermark adopting the same investment philosophy focusing on a long and short portfolio of Australian listed securities that ALF Shareholders have sort out in investing in ALF. The Company confirmed in its FY2020 Financial Report<sup>18</sup> that WARF follows the same broad investment strategy as ALF, therefore the open investment positions at completion will remain intact and current Shareholders will continue to benefit from such investments after the Proposed Transaction is completed. Further, Shareholders by holding WARF New Units will retain investments with the same risk and return profile of ALF. The consistency of investment strategy between ALF & WARF without Shareholders seeking to source alternate investments is an advantage of the Proposed Transaction.

<sup>18</sup> Chairman’s Report by Mr Braitling, page 2, ALF FY2020 Annual Report.

### ***Flexibility to change manager***

The current IMA between Watermark and ALF is a 25-year agreement signed between the Manager and the Company (and their respective former names) with 8 years remaining, as noted in Section 5.2 above. Watermark and ALF are bound to the agreement and cannot be varied without material cost to the Company, as evidenced by the agreed termination fee outlined above.

In contrast, Shareholders will hold units in an unlisted investment scheme following the Proposed Transaction. Under such a structure, the management agreement between Watermark and WARF may be terminated by EQT, in its capacity as the Responsible Entity for WARF for any reason on 30 business days' notice. Therefore, current Shareholders will have greater flexibility and power to replace and appoint an alternative investment manager should the need arise, by way of meeting of all members of WARF under s601FM of the *Corporations Act*. Having flexibility to change manager in the new structure is an advantage of the Proposed Transaction.

### ***No alternative offers***

At the date of this Report, there are no alternative offers received from other parties with respect to ALF. Accordingly, the Proposed Transaction offers an opportunity to shareholders that is otherwise unavailable.

## **10.5 Disadvantages**

### ***Unlisted investment***

ALF Shareholders currently hold an interest in the shares of a publicly listed entity on the ASX. As part of the Proposed Transaction, their holding would be exchanged for WARF New Units which are an unlisted investment. As such shareholders will not have the same level of liquidity to exit their investment at any time on the open market, at the prevailing market price. Instead, the redemption facility currently in places for existing WARF unitholders will also be made available for holders of the WARF New Units which ALF Shareholders will be issued as part of the Proposed Transaction. As outlined in Section 4 above, this facility will enable unitholders to exit their investment on a monthly basis at a NTA value less a buy/sell spread. hanging from a listed company to an unlisted trust maybe a disadvantage to ALF Shareholders.

### ***Unfranked distributions***

As noted above, Shareholders will receive New Units in WARF, which is structured as an unlisted investment trust. Under this structure, investors will receive a return in the form of unfranked distributions from the earnings of the Fund, where income tax is paid at the individual investor level rather than by WARF. If the Proposed Transaction is approved, current ALF Shareholders will no longer receive distributions in the form of franked dividends as the Company has paid in the past. Certain Shareholders may prefer an investment structured as a company with the ability to receive franked dividends on an ongoing basis. However, due to the tax losses accumulated by the Company, franked dividends are not expected to be paid by ALF in the short to medium term even in the absence of the Proposed Transaction. We note the Company has historically paid a combination of fully or partially franked dividends to shareholders, however the dividend paid in FY2020 was unfranked. Therefore, the receipt of unfranked distributions as a holder of WARF New Units in future after the Proposed Transaction would have the same tax implications as the ALF FY2020 dividend.

### ***Tax Impacts***

The issue of WARF New Units under the Proposed Transaction will be effected by way of an in specie distribution to ALF Shareholders and capital reduction where the ALF shares will subsequently be cancelled. Certain tax consequences may arise for shareholders as a result of the capital reduction, including liability for capital gains tax. The timing of such tax implications will be beyond the control of individual Shareholders, whom would otherwise typically trigger a tax impact upon a sale of ALF shares at a time of their choosing. Shareholders should seek professional independent tax advice as required to understand their specific tax consequence as a result of the Proposed Transaction.

### ***Loss of Deferred Tax Assets***

Tax losses accumulated by the Company totalling circa \$55 million as at 30 June 2020 will be permanently lost if the Proposed Transaction is approved, as we are advised by the Company and its tax advisors that such tax losses are unable to be transferred to WARF. We note however that tax losses may only be utilised where the Company generates sufficient future profits and satisfies certain criteria required by prevailing tax law. We are advised in discussions with management that ALF is unlikely to generate the requisite profits to utilise all of the accumulated tax losses in the foreseeable future, given the Company's performance in recent years, and the value of such losses is limited.

### ***Proposed Transaction may proceed regardless***

The Proposed Transaction may proceed even if you choose to vote against it. As a Scheme of Arrangement, the Proposed Transaction will take place in accordance with the Scheme Implementation Deed where all the requisite conditions and approvals have been received, including approvals by the court and the required number of voting ALF shares. For a scheme of arrangement in the form of the Proposed Scheme to be approved, a resolution must be passed at meetings of shareholders by both 75% of the votes cast, and over 50% of the number of shareholders voting on the resolution.

### ***Deters alternative offers***

Announcement and approval of the Proposed Transaction by Shareholders may prevent alternative offers or proposals from being lodged by other parties. There is always the possibility that a higher offer will be submitted for the shares in ALF, creating a larger return for the Shareholders. In our opinion this is unlikely, given that ALF is not actively seeking offers, the directors have not advised that there are any other bidders currently seeking to make a counter offer and the Company's share price has consistently traded below its announced NTA for some time (as shown in our analysis in Section 8.4). Further, the existence of Watermark as the incumbent investment manager of the Company with some 8 years remaining on the IMA, and any proposal would require the support of the Manager or potentially require larger termination payment to the Manager to obtain such support, which may act as a deterrent for any third parties to lodge an alternative offer for the Company.

## **10.6 Other Considerations of the Proposed Transaction**

### ***Director Recommendation***

The Directors of ALF have recommended the Shareholders to vote in favour of the Proposed Transaction in the absence of a superior proposal and provided the independent expert forms the view the Proposed Transaction is fair and reasonable, and thus in the best interests of the Shareholders.

### ***No Significant Change to the Fees***

The management fee payable by ALF and WARF to Watermark as manager is calculated at the same rate based on the prevailing NAV value of managed fund. There will be no change in the management fee structure as a result of the Proposed Transaction.

The performance fee structure is similar between ALF and WARF. WARF adopts RBA cash rate as its performance fee benchmark subject to a high-water mark from historical performance as outlined in Section 6.1 above, while the performance of ALF is benchmarked against All Ordinaries Accumulation Index for performance fee purposes.

## **10.7 Conclusion**

Based on our assessment of the factors outlined above, in our opinion, the Proposed Transaction is considered to be **fair and reasonable** as such, is in the best interests of Shareholders.

The decision of any individual shareholder to accept or reject the Proposed Transaction is subject to and influenced by his or her individual circumstances. Titan Partners Corporate Finance strongly advises Shareholders to consult their independent advisors if in doubt.



**Appendix 1 – Financial Services Guide**

**Titan Partners Corporate Finance Pty Limited**  
Australian Financial Services Licence  
Number: 427275  
ABN 38 177 095 636  
Level 3, 7 Macquarie Place  
Sydney NSW 2000  
PO Box R415  
Royal Exchange NSW 1225  
Australia  
T +61 2 9268 3300  
www.titanpartners.com.au

**Financial Services Guide**

Titan Partners Corporate Finance Pty Limited ABN 38 177 095 636 ("**Titan Partners Corporate Finance**", "**we**", "**us**") has been engaged to prepare general financial product advice in the form of an Independent Expert's Report to be provided to you.

In this circumstance we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to assist retail clients to make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

The FSG herein contains information with regards to:

1. who Titan Partners Corporate Finance is and how we can be contacted;
2. services we authorised to provide under our Australian Financial Services Licence;
3. remuneration that we, our staff and any associates receive in connection with the general financial product advice provided; and
4. our complaints handling process and the avenues available to lodge a complaint.

***Titan Partners Corporate Finance***

Titan Partners Corporate Finance is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Titan Partners Corporate Finance holds Australian Financial Services Licence Number 427275.

***Financial services we are licensed to provide***

The Australian Financial Services Licence we hold authorises us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities (including debentures, shares and bonds), derivatives and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

***General Financial Product Advice***

In our Report, we provide general financial product advice. It was prepared without taking into account your personal objectives, financial circumstances or needs.



You should consider your own personal objectives, financial circumstances or needs in assessing the appropriateness of the general advice we provide and may wish to seek personal advice from the holder of an Australian Financial Services Licence.

***Fees, commissions and benefits we may receive***

We charge fees to provide reports, including the IER provided herein. These fees are negotiated and agreed with the entity which engages us to provide a report. Our fees are determined on either a fixed amount or charged on an hourly time cost basis. Titan Partners Corporate Finance are expected to receive a fee of approximately \$35,000 for the preparation of this Report. The fee is not affected by whether the Shareholders approve or reject the Proposed Transaction. Except for such fees, Titan Partners Corporate Finance nor any of its directors, officers or associates receive any commissions or further benefits in connection with the report provided.

All of our employees receive a salary. Our employees do not receive any commissions or benefits arising directly from services provided to our clients.

We do not pay commissions or provide any other benefits to any party for referring clients to us in connection with the services that we are licensed to provide.

***Complaints***

As the holder of an Australian Financial Services Licence, we are required to have a complaints handling system for persons to whom we provide financial product advice. All complaints must be in writing, addressed to Titan Partners Corporate Finance Pty Ltd, PO Box R415, Royal Exchange NSW 1225.

In the event we are unable to satisfactorily resolve your complaint within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited ("**FOS**"), an independent external complaints resolution service established to provide advice and assistance to consumer to assist in resolving complaints relating to the financial services industry. You will not be charged for using the FOS service.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

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**Appendix 2 – Qualifications, Declarations and Consents****Qualifications and Responsibilities**

Titan Partners Corporate Finance Pty Limited is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Mr Brad Higgs, *B.Com, CA, F.Fin* is responsible for this Report. Mr Higgs has a significant number of years' experience in relevant business advisory and corporate finance matters.

Mr Higgs is acting as a Representative of Titan Partners Corporate Finance pursuant to its Australian Financial Services Licence (No. 427275) held under Part 7 of the *Corporations Act 2001* (Cth) to provide advice on the valuation of securities.

**Disclaimers**

This Report has been undertaken in accordance with the instructions from the Directors of ALF. In performing this assignment we have accepted all information as presented to us as being free of material misstatement. We have relied on information provided, as set out in Section 3.3. We have evaluated this information through analysis, enquiry and review as appropriate. We do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

The purpose of this Report, as set out in Section 3.1, is to opine on the Proposed Transaction, although there is no requirement under the *Corporations Act 2001*. We understand that the Directors of ALF wish to obtain an Independent Expert's Report to assist the Shareholders in their decision to accept or reject the Proposed Transaction with WARF.

This report has been prepared solely to assist the Shareholders in considering their decisions with respect to the Proposed Transaction. We do not assume any responsibility or liability for any losses suffered by any party as a result of the circulation, publication, reproduction or other use of this report contrary to the provisions of this paragraph.

This Report has been prepared by Titan Partners Corporate Finance with care and diligence and that statements and opinions given by Titan Partners Corporate Finance in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Titan Partners Corporate Finance or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Titan Partners Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

**Declarations**

Our Report has been prepared in accordance with *Regulatory Guide 111 Content of Expert Reports* issued by ASIC, professional standard *APES 225 Valuation Services*, issued by the Accounting Professional and Ethical Standards Board ("*APESB*") and any other applicable professional standards and statutory requirements, including the *Corporations Act 2001*.

Titan Partners Corporate Finance nor its Representatives or staff have at the date of this Report nor has ever had any shareholding in or other relationship with ALF that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Titan Partners Corporate Finance will receive a fee based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the valuation report. Titan Partners Corporate Finance will receive no other benefit for the preparation of this Report.

ALF have agreed that to the extent permitted by law to indemnify Titan Partners Corporate Finance employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this Report; including any claim arising from or in connection with its reliance on information or documentation provided by or on

behalf of ALF which is false, misleading or omits material information. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct or fraud. ALF have also agreed to indemnify Titan Partners Corporate Finance and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Titan Partners Corporate Finance or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct or fraud in which case Titan Partners Corporate Finance shall bear such costs.

### ***Consents***

Titan Partners Corporate Finance consents to the inclusion of this Report in the form and context in which it is included in the Scheme of Arrangement to be issued to Shareholders with respect to the Proposed Transaction. Other than this Report, none of Titan Partners Corporate Finance or its affiliates has been involved in the preparation of the Scheme of Arrangement.

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**Appendix 3 – Glossary of Key Terms**

| Term  | Definition  |
|---|---|
| <b>Financial Periods</b>                        |   |
| <b>FY2018</b>                                   | Audited financial information for financial year ended 30 June 2018   |
| <b>FY2019</b>                                   | Audited financial information for financial year ended 30 June 2019   |
| <b>FY2020</b>                                   | Audited financial information for financial year ended 30 June 2020   |
| <b>YTD Nov2020</b>                              | Unaudited Interim information for 5-months ending 30 November 2020  |
| <b>Transaction Terms</b>                        |   |
| <b>28 Sep Announcement</b>                      | ALF announcement to ASX on 28 September 2020, with respect to the Proposed Transaction with Watermark and WARF.   |
| <b>ALF, the “Company”</b>                       | Australian Leaders Fund Limited, ABN 64 106 845 970   |
| <b>ASIC</b>                                     | Australian Securities and Investments Commission  |
| <b>ASX</b>                                      | Australian Securities Exchange Limited  |
| <b>EBITDA</b>                                   | Earnings before interest and tax, depreciation and amortisation   |
| <b>EQT, the “Responsible Entity”</b>            | Equity Trustees Limited, ABN 46 004 031 298, AFSL 24097, as Responsible Entity for WARF   |
| <b>IMA</b>                                      | Investment management agreement between Watermark and ALF signed 11 November 2003   |
| <b>KYC Requirements</b>                         | Know Your Customer rules of the <i>Anti Money Laundering / Counter-terrorism Financing Act 2006</i>   |
| <b>Mr Braitling</b>                             | Justin Braitling, Chairman of ALF and Director of Watermark   |
| <b>NAV</b>                                      | Net Asset Value   |
| <b>New Units</b>                                | A new class of security in WARF to be issued to ALF Shareholders  |
| <b>Non-Compliant Shareholders</b>               | Current Australian Shareholders whom do not satisfy the KYC Requirements to be issued WARF New Units under the Proposed Transaction   |
| <b>NPAT</b>                                     | Net Profit After Tax  |
| <b>NTA</b>                                      | Net Tangible Assets   |
| <b>Proposed Transaction, or Proposed Scheme</b> | Proposal to restructure ALF via a scheme of arrangement with Watermark and WARF   |
| <b>Redemption Facility</b>                      | Facility provided by WARF for unitholders and holders of the WARF New Units to exit their investments, at a price calculated based on the prevailing monthly Net Asset Value. |
| <b>Redemption Fee</b>                           | A charge applied to any redemption of WARF New Units made within the first year of the issue of the WARF New Units.   |
| <b>Scheme Booklet</b>                           | Scheme document setting out details of the Proposed Transaction prepared by ALF management to which this Report accompanies.  |
| <b>Shareholders</b>                             | Current shareholders of ALF   |
| <b>the “Report”</b>                             | This Independent Expert’s Report on the Proposed Transaction  |
| <b>Titan Partners Corporate Finance, “we”</b>   | Titan Partners Corporate Finance Pty Limited, AFSL: 427275.   |

| Term                            | Definition  |
|---------------------------------|---|
| <b>VWAP</b>                     | Volume Weighted Average Price of listed securities                            |
| <b>WARF, the “Fund”</b>         | Watermark Absolute Return Fund, ARSN 631 094 534                              |
| <b>Watermark, the “Manager”</b> | Watermark Funds Management Pty Limited as investment manager for ALF and WARF |

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**Appendix 4 – Sources of Information**

The information set out below was considered, adopted and relied upon by us in forming our opinion and preparing the report herein:

- Audited Financial Statements of ALF for the years ended 30 June 2019 (“FY2019”) and 30 June 2020 (“FY2020”), with comparative information for the year ended 30 June 2018 (“FY2018”);
- Audited Financial Statements of WARF for FY2019 and FY2020, with comparative information for FY2018;
- ASX announcements by ALF on 28 September 2020 in respect of the Proposed Transaction;
- Other ASX announcements issued by ALF;
- Product Disclosure Statement of WARF dated 8 March 2019;
- Management information with respect to the operations of ALF;
- Management information with respect to the operations of WARF;
- Scheme Implementation Deed and draft Scheme of Arrangement for the Proposed Transaction
- Corporate transaction data and other market data as sourced from S&P Capital IQ;
- Industry Research Reports published by IBISworld Australia;
- Discussions with Pitcher Partners, as tax advisors for ALF;
- Restructure booklet with details of the Proposed Transaction provided by the management of ALF on 07 December 2020. Discussions with directors, management and advisors of ALF, including Mr Justin Braitling in his capacity as Chairman of ALF and Director of Watermark, as well as provision of internal accounting work papers and analysis.

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**Appendix 5 – Recent ASX Announcements**

| <b>Australian Leaders Fund Limited</b><br><b>Company Announcements for the period from 1 July 2020 to 30 November 2020</b> |   |
|--|---|
| <b>Announcement Date</b>   | <b>Title</b>  |
| 30/11/2020   | Weekly Month-to-date Performance Estimate                   |
| 23/11/2020   | Weekly Month-to-date Performance Estimate                   |
| 16/11/2020   | Weekly Month-to-date Performance Estimate                   |
| 13/11/2020   | Impairment of Deferred Tax Assets                           |
| 13/11/2020   | Net Tangible Asset Backing                                  |
| 09/11/2020   | Weekly Month-to-date Performance Estimate                   |
| 03/11/2020   | Corporate Governance Council Principles and Recommendations |
| 02/11/2020   | Change in Portfolio Value                                   |
| 26/10/2020   | Weekly Month-to-date Performance Estimate                   |
| 19/10/2020   | Weekly Month-to-date Performance Estimate                   |
| 14/10/2020   | Net Tangible Asset Backing                                  |
| 12/10/2020   | Weekly Month-to-date Performance Estimate                   |
| 08/10/2020   | Change of date of Annual General Meeting                    |
| 06/10/2020   | Weekly Month-to-date Performance Estimate                   |
| 01/10/2020   | Change in Portfolio Value                                   |
| 30/09/2020   | Full Year Statutory Accounts                                |
| 28/09/2020   | EXECUTION OF HEADS OF AGREEMENT FOR A PROPOSED RESTRUCTURE  |
| 24/09/2020   | Trading Halt  |
| 21/09/2020   | Weekly Month-to-date Performance Estimate                   |
| 14/09/2020   | Net Tangible Asset Backing                                  |
| 14/09/2020   | Weekly Month-to-date Performance Estimate                   |
| 08/09/2020   | Cancellation of shares ASIC form 484                        |
| 07/09/2020   | Weekly Month-to-date Performance Estimate                   |
| 03/09/2020   | ALF Independent Board Committee                             |
| 02/09/2020   | Change in Portfolio Value                                   |
| 01/09/2020   | Weekly Month-to-date Performance Estimate                   |
| 31/08/2020   | Appendix 4E Preliminary Final Report                        |
| 31/08/2020   | Media Release   |
| 27/08/2020   | Becoming a substantial holder                               |
| 27/08/2020   | Becoming a substantial holder                               |
| 24/08/2020   | Weekly Month-to-date Performance Estimate                   |
| 20/08/2020   | Quarterly Report  |
| 18/08/2020   | Weekly Month-to-date Performance Estimate                   |
| 14/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 14/08/2020   | Net Tangible Asset Backing                                  |
| 11/08/2020   | Weekly Month-to-date Performance Estimate                   |
| 10/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 06/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 05/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 04/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 04/08/2020   | Change in Portfolio Value                                   |
| 03/08/2020   | Daily share buy-back notice - Appendix 3E                   |
| 30/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 29/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 28/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 27/07/2020   | Weekly Month-to-date Performance Estimate                   |
| 21/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 21/07/2020   | Weekly Month-to-date Performance Estimate                   |
| 20/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 17/07/2020   | Daily share buy-back notice - Appendix 3E                   |
| 14/07/2020   | Net Tangible Asset Backing                                  |
| 13/07/2020   | Weekly Month-to-date Performance Estimate                   |
| 09/07/2020   | Cancellation of shares ASIC form 484                        |
| 06/07/2020   | Weekly Month-to-date Performance Estimate                   |
| 02/07/2020   | Change in Portfolio Value                                   |

Source: ASX

## ANNEXURE B– SCHEME IMPLEMENTATION DEED



### SCHEME IMPLEMENTATION DEED

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**Australian Leaders Fund Limited**

(ACN 106 845 970)

**Equity Trustees Limited**

(ACN 004 031 298)

**as trustee for the Watermark Absolute Return Fund (ARSN 631 094 534)**

**Watermark Funds Management Pty Limited**

(ACN 106 302 505)



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under Professional Standards Legislation.



**THIS SCHEME IMPLEMENTATION DEED** is made on

**22 December 2020**

**BETWEEN** **Australian Leaders Fund Limited** (ACN 106 845 970) of Level 23, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000 (**ALF**);

**AND** **Equity Trustees Limited** (ACN 004 031 298) as trustee of the Watermark Absolute Return Fund (ARSN 631 094 534) of Level 1, 575 Bourke Street, Melbourne, VIC, 3000 (**Responsible Entity**);

**AND** **Watermark Funds Management Pty Limited** (ACN 106 302 505) of Level 23, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000 (**Manager**).

## **RECITALS**

ALF and the Responsible Entity have agreed that Watermark Absolute Return Fund will acquire the assets of ALF by means of a scheme of arrangement under Part 5.1 of the Corporations Act between ALF and the ALF Shareholders.

The Scheme will involve the issue of a new class of Watermark Absolute Return Fund Units to ALF which ALF will distribute in specie as Scheme Consideration and in satisfaction of a capital reduction by ALF.

ALF and the Responsible Entity have agreed to implement the scheme of arrangement on the terms of this Deed.

The Manager has agreed to assist ALF and the Responsible Entity with the preparation of the Scheme Booklet and otherwise assist with the implementation of the Scheme.

## **OPERATIVE PROVISIONS**

### **1. DEFINITIONS AND INTERPRETATION**

#### **1.1. Definitions**

In this Deed:

**ALF Assets** mean Assets of ALF with an aggregate value equal to the Completion Net Assets.

**ALF Constitution** means the constitution of ALF.

**ALF Information** means information regarding ALF provided by ALF for inclusion in the Scheme Booklet.

**ALF Management Agreement** means the investment management agreement dated 11 November 2003 between Australian Leaders Fund Limited (formerly known as Wilson Leaders Limited) and the Manager (formerly known KWB Capital Pty Limited).

**ALF Parties** means ALF and its directors, officers and advisers in connection with the Transaction, but for avoidance of doubt does not include the Responsible Entity Parties or the Manager Parties.

**ALF Share** means a fully paid ordinary share in the capital of ALF.

**ALF Shareholder** means a person who is registered in the ALF share register as the holder of an ALF Share.

**ALF Warranties** means the representations provided by ALF under clause 5.2.

**AML/CTF Act** means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth).

**Applicable Customer Identification Procedure** has the meaning given in the AML/CTF Act.

**ASIC** means the Australian Securities & Investments Commission.

**Assets** means any legal or equitable right, estate or interest (whether present or future and whether vested or contingent) in real or personal property and any description, wherever located and whether tangible or intangible, including:

- (a) any part of the business or undertaking of a body corporate;
- (b) a chose or other thing in action, including any rights under any contract, negotiable instrument or other arrangement;
- (c) any share in a company and any unit or other interest in a trust;
- (d) any 'property' (within the meaning in subsection 413(4) of the Corporations Act); and
- (e) any other thing capable of being transferred or otherwise dealt with by order of the Court in accordance with paragraph 413(1)(a) of the Corporations Act.

**ASX** means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

**Australian Accounting Standards** means the accounting standards promulgated by the Australian Accounting Standards Board.

**Business Day** means a weekday on which trading banks are open for business in Sydney, Australia, excluding any Saturday, Sunday or public holiday.

**Capital Reduction** means the reduction in the capital of ALF by the Capital Reduction Amount under section 256B of the Corporations Act to be applied equally against each Scheme Share on issue as at the Record Date in accordance with the terms of the Capital Reduction Resolution.

**Capital Reduction Amount** means an amount equal to the Completion Net Assets.

**Capital Reduction Entitlement** means in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of Scheme Shares held by the Scheme Participant on the Record Date.

**Capital Reduction Pro-Rata Amount** means the Capital Reduction Amount divided by the number of Scheme Shares on issue on the Record Date.

**Capital Reduction Resolution** means the ordinary resolution concerning the Capital Reduction to be considered by ALF Shareholders at the General Meeting as set out in Annexure A of the Scheme.

**Competing Transaction** means any proposal by a Third Party in relation to a transaction or arrangement under which if the transaction or arrangement is completed:

- (a) a person would acquire (whether directly or indirectly) or become the holder of, or otherwise have a right to acquire or have an economic interest in, all or substantially all of the business conducted by ALF, or the assets of ALF;
- (b) a person would acquire (whether directly or indirectly) Control of ALF;

- (c) a person would acquire a relevant interest in, or voting power of, 50% or more of the ALF Shares;
- (d) a person would otherwise acquire, or merge or amalgamate with, ALF; or
- (e) ALF would be required to abandon or otherwise fail to proceed with the Transaction.

**Completion** means completion of the Transaction.

**Completion Net Assets** means an amount equal to the post-tax net assets of ALF as at the Implementation Date after payment of the Dividend Amount in accordance with clause 4.9(a) but immediately prior to the transactions referred to in clauses 4.9(b) to 4.9(h) (inclusive), calculated in accordance with the Corporations Act, Australian Accounting Standards (including the Australian Accounting Interpretations), and the Corporations Regulations less the Retention Amount and franking deficit tax attributable to the Dividend Amount (if any).

**Condition Precedent** means a condition precedent set out in Clause 3.1.

**Control** has the meaning given in section 50AA of the Corporations Act.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Corporation Regulations** means the *Corporations Regulations 2001* (Cth).

**Court** means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act as ALF and the Responsible Entity agree on in writing.

**Dividend** means a dividend determined in accordance with section 254T of the Corporations Act by the Directors and paid to each Scheme Participant, subject to the Scheme becoming Effective, in cash on the Implementation Date.

**Dividend Amount** means the amount of the Dividend which is determined by the Directors such that ALF is not in a franking deficient position as at 30 June 2021 or such earlier on which ALF is wound up.

**Dividend Entitlement** means in relation to a Scheme Participant, the Dividend Pro Rata Amount multiplied by the number of Scheme Shares held by the Scheme Participant on the Record Date.

**Dividend Pro Rata Amount** means an amount of not less than 3 cents per Scheme Share calculated by dividing the Dividend Amount by the number of Scheme Shares on issue on the Record Date.

**Director** means a director of ALF from time to time.

**Deed Poll** means the deed poll to be granted by the Responsible Entity in substantially the form set out in 0.

**Early Termination Fee** means an amount of \$2,500,000 payable by ALF to the Manager for the early termination of the ALF Management Agreement.

**Effective** means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) and section 413 in relation to the Scheme.

**Exclusivity Period** means the period starting on the date of this Deed and ending on the earlier of the Effective Date, the date this Deed is terminated and the End Date.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means 30 June 2021.

**Explanatory Statement** means the statement pursuant to section 412 of the Corporations Act which has been, or will be, registered by ASIC in relation to the Scheme together with the explanatory memorandum relating to the Capital Return Resolution and the Termination Resolution, which forms part of the Scheme Booklet.

**First Court Date** means the first day on which an application made to the Court for an order under section 411(1) of the Corporations Act convening the Scheme Meeting is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.

**Fund PDS** means the current product disclosure statement issued by the Responsible Entity with respect to the Watermark Absolute Return Fund and the Units.

**General Meeting** means the general meeting for ALF Shareholders convened to consider the Capital Reduction Resolution and the Termination Fee Resolution.

**Government Agency** means any Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state.

**Implementation Date** means the day 5 Business Days after the Record Date or such other date as ALF and the Responsible Entity agree in writing.

**Independent Board Committee** means a committee of the Board comprising all Directors other than Directors nominated by or associated with the Manager being as at the date of this Deed, Julian Gosse and John Abernethy.

**Independent Director** means a member of the Independent Board Committee.

**Independent Director Share** means an ALF Share in which an Independent Director has a Relevant Interest.

**Independent Expert** means the independent expert in respect of the Scheme appointed by ALF.

**Independent Expert's Report** means the report prepared by the Independent Expert to be provided to ALF and ALF Shareholders providing an opinion, among other things, as to whether the Scheme is in the best interests of ALF Shareholders.

**Ineligible Units** means the Units to which Ineligible Foreign Shareholders would have been entitled under the Scheme but for the operation of clause 4 of the Scheme.

**Ineligible Foreign Shareholder** means a Scheme Participant whose address as shown in the Share Register is a place outside Australia and its external territories or New Zealand unless ALF, the Responsible Entity and the Manager agree in writing that it is lawful and not unduly onerous or impracticable to issue that Scheme Participant with the Units when the Scheme becomes Effective.

**Investment Entity** has the meaning given in the Listing Rules.

**KYC Information** in relation to a Scheme Participant that is not an Ineligible Foreign Participant means all information that the Responsible Entity reasonably considers it will require

in respect of each Scheme Participant after Implementation Date for the purpose of the AML/CTF Act.

**Listing Rules** means the official listing rules of the ASX.

**Manager Information** means information regarding Watermark Absolute Return Fund (but excluding the Responsible Entity Information), the Manager and other entities managed by the Manager and its Related Bodies Corporate, provided by the Manager for inclusion in the Scheme Booklet.

**Manager Parties** means the Manager and its directors, officers and advisers in connection with the Transaction, but for avoidance of doubt does not include the ALF Parties or the Responsible Entity Parties.

**Nominee** means the agent appointed by ALF to be receive, and to withdraw, the Units in the Watermark Absolute Return Fund that would have otherwise been transferred to Ineligible Foreign Shareholders in relation to the Scheme.

**Party** means a party to this Deed.

**PDS** means the product disclosure statement to be issued by the Responsible Entity relating to the Units to be issued to, and distributed by, ALF as the Scheme Consideration, a copy of which will be included in the Scheme Booklet.

**Proceeding** means any suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding), hearing, audit, examination or investigation commenced, brought, conducted or heard by or before or otherwise involving any court or other Government Agency or any arbitrator or arbitration panel.

**RG 60** means Regulatory Guide 60 issued by ASIC on September 2020.

**Record Date** means the record date for the Scheme and the Dividend, being the third Business Day after the Effective Date or such other date as ALF, the Responsible Entity and the Manager agree.

**Records** means:

- (a) records required to be maintained by ALF under applicable law;
- (b) accounting records; and
- (c) records of contracts,

relating to the Completion Net Assets.

**Registered Address** means, in relation to an ALF Shareholder, the address of that ALF Shareholder as recorded in the Share Register.

**Registry** means Boardroom Pty Limited of Level 12, 225 George Street, Sydney NSW 2000.

**Regulator's Draft** means the draft of the Scheme Booklet in a form acceptable to all Parties which is provided to ASIC for approval pursuant to section 411(2) of the Corporations Act.

**Related Body Corporate** has the meaning set out in the Corporations Act.

**Relevant Interest** has the meaning given in Sections 608 and 609 of the Corporations Act.

**Representative** in respect of a Party, means each director, officer, employee, advisor, agent or representative of that Party or Subsidiary.

**Responsible Entity Information** means information regarding the Responsible Entity provided by the Responsible Entity for inclusion in the Scheme Booklet including the PDS.

**Responsible Entity Parties** means the Responsible Entity and its directors, officers and advisers in connection with the Transaction, but for avoidance of doubt does not include the ALF Parties or the Manager Parties.

**Responsible Entity Warranties** means the representations provided by the Responsible Entity under Clause 5.1.

**Retention Amount** means \$250,000 or such lesser amount agreed by ALF and the Manager to be retained by ALF to cover expenses following Completion which are not liabilities of ALF as at the Implementation Date or otherwise accounted for in ALF's Completion Net Assets.

**Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between ALF and the Scheme Participants, the form of which is set out in Schedule 2 (or in such other form as may be agreed to in writing by ALF and the Responsible Entity).

**Scheme Booklet** means the information relating to the Transaction to be approved by the Court and despatched to all ALF Shareholders, including the Scheme, the Explanatory Statement, the Independent Expert's Report, the Deed Poll, the notices convening the Scheme Meeting and the General Meeting and the proxy forms for the Scheme Meeting and the General Meeting.

**Scheme Consideration** means the Units with an aggregate value equal to the Completion Net Assets received by ALF in consideration for the transfer of the ALF Assets and distributed in specie as set out in the Scheme.

**Scheme Meeting** means the meeting of ALF Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

**Scheme Participant** means each ALF Shareholder as at the Record Date.

**Scheme Share** means an ALF Share held by a Scheme Participant as at the Record Date.

**Second Court Date** means the first day on which the application made to the Court for an order for the purposes of section 411(4)(b) and section 413 of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.

**Share Register** means the register of members of ALF.

**Superior Competing Transaction** means a bona fide unsolicited Competing Transaction received by ALF after the date of this Deed which the Independent Board Committee has determined, acting in good faith and in accordance with their fiduciary duties, and after consultation with and the receipt of written advice from the Independent Board Committee's external legal advisor and financial adviser is:

- (a) reasonably capable of being completed, taking into account all aspects of the Competing Transaction and the person making it; and
- (b) more favourable to ALF Shareholders (as a whole) than the Transaction, taking into account all the terms and conditions of the Competing Transaction.

**Termination Deed** means the deed terminating the ALF Management Agreement on the Effective Date.

**Termination Fee Resolution** means the ordinary resolution concerning payment of the Early Termination Fee under chapter 2E of the Corporations Act as set out in Annexure A of the Scheme to be considered by ALF Shareholders at the General Meeting.

**Transaction** means termination of the Management Agreement, implementation of the Capital Reduction, payment of the Dividend Amount and implementation of the Scheme.

**Timetable** means the indicative timetable for the Transaction set out in Schedule 1.

**Third Party** means a person other than the Parties and their Representatives.

**Units** means a new class of fully paid units in the Watermark Absolute Return Fund subject to the fee arrangements detailed in the Watermark Absolute Return Fund Management Agreement.

**Watermark Absolute Return Fund** means the Watermark Absolute Return Fund (ARSN 631 094 534).

**Watermark Absolute Return Fund Constitution** means the constitution of the Watermark Absolute Return Fund.

**Watermark Absolute Return Fund Management Agreement** means the investment management agreement with respect to the Watermark Absolute Return Fund between the Manager and the Responsible Entity dated 7 March 2019 as amended by the parties from time to time, including via side letter signed on or around 17 December 2020.

**Withdrawal** has the meaning given to it in clause 4.10(b)(i).

**Withdrawal Period** means the period on and from the Implementation Date to and including the fifth Business Day after the Implementation Date.

## **1.2. Interpretation**

In this Deed, headings and bold type are for convenience only and do not affect interpretation and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;
- (c) other parts of speech and grammatical forms of a word or phrase defined in this Deed have a corresponding meaning;
- (d) a reference to a person includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture, a partnership, a trust and any Government Agency;
- (e) a reference to a Clause, Party, Attachment or Schedule is a reference to a clause of, and a party, attachment and schedule to this Deed, and a reference to this Deed includes any Attachment and Schedule;
- (f) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another Government Agency with

legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;

- (g) a reference to any document (including this Deed) is to that document as varied, novated, ratified or replaced from time to time;
- (h) the word **includes** in any form is not a word of limitation;
- (i) a reference to **\$** or **dollar** is to Australian currency;
- (j) a reference to any time, unless otherwise indicated, is a reference to the time in Sydney, Australia;
- (k) if an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day;
- (l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Deed; and
- (m) a reference to the Listing Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a Party.

## **2. AGREEMENT TO PROCEED WITH THE TRANSACTION**

### **2.1. Proposal of Transaction**

ALF agrees to propose the Transaction on and subject to the terms of this Deed.

### **2.2. Assistance**

The Responsible Entity and the Manager agree with ALF to provide reasonable assistance to ALF to propose the Transaction on and subject to the terms of this Deed.

### **2.3. Consent**

ALF and the Responsible Entity must obtain the Manager's written consent (not to be unreasonably withheld) prior to agreeing to vary the terms of this Deed, the Scheme or any associated documents.

## **3. CONDITIONS PRECEDENT**

### **3.1. Conditions Precedent to the Scheme**

The Scheme will not become Effective, and the obligations of the Responsible Entity under the Deed Poll and Clauses 4.3(i) and 4.9 are not binding, until each of the following conditions precedent is satisfied or waived in the manner set out in Clause 3.3:

- (a) **Scheme Meeting Approval:** ALF Shareholders approve the Scheme at the Scheme Meeting by the requisite majorities under the Corporations Act;
- (b) **General Meeting Approvals:** ALF Shareholders approve both the Capital Reduction Resolution and the Termination Fee Resolution at the General Meeting;
- (c) **Court Approval:** the Court approves the Scheme in accordance with sections 411(4)(b) and 413 of the Corporations Act;



- (d) **Restraints:** no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency or other material legal restraint or prohibition preventing the Transaction from being implemented is in effect at 8.00 am on the Second Court Date;
- (e) **No breach of ALF Warranty:** none of the ALF Warranties is or has become false, misleading or incorrect in a material respect by 8.00am on or before the Second Court Date;
- (f) **No breach of Responsible Entity Warranty:** none of the Responsible Entity Warranties is or has become false, misleading or incorrect in a material respect by 8.00am on or before the Second Court Date; and
- (g) **Independent Expert:** the Independent Expert issues a report which concludes that the Scheme is in the best interests of ALF Shareholders before the time when the Scheme Booklet is registered with ASIC and the Independent Expert has not publicly withdrawn or qualified this conclusion before 8am on the Second Court Date.

### **3.2. Reasonable endeavours**

- (a) ALF must use its reasonable endeavours to procure that there is no occurrence within the control of ALF that would prevent the Conditions Precedent in Clause 3.1(e) to be satisfied.
- (b) The Responsible Entity must use its reasonable endeavours to procure that there is no occurrence within the control of the Responsible Entity that would prevent the Conditions Precedent in Clause 3.1(f) to be satisfied.
- (c) ALF and the Responsible Entity must each use its reasonable endeavours to procure that:
  - (i) each of the Conditions Precedent in Clauses 3.1(a) to 3.1(d) and Clause 3.1(g) is satisfied as soon as practicable after the date of this Deed; and
  - (ii) there is no occurrence within the control of ALF or the Responsible Entity (as the context requires) that would prevent the Conditions Precedent in Clauses 3.1(a) to 3.1(d) and Clause 3.1(g) being satisfied.

### **3.3. Waiver of Conditions Precedent**

- (a) The Conditions Precedent in Clauses 3.1(a) and 3.1(b) cannot be waived.
- (b) The Conditions Precedent in Clauses 3.1(c) and 3.1(d) are for the benefit of ALF and the Responsible Entity and any breach or non-fulfilment of these Conditions Precedent may only be waived with the written consent of both ALF and the Responsible Entity (each in its absolute discretion).
- (c) The Condition Precedent in Clause 3.1(e) is for the sole benefit of the Responsible Entity and any breach or non-fulfilment of any of that Conditions Precedent may only be waived with the written consent of the Responsible Entity (in its absolute discretion).
- (d) The Conditions Precedent in Clauses 3.1(f) and 3.1(g) are for the sole benefit of ALF and any breach or non-fulfilment of any of those Conditions Precedent may only be waived with the written consent of ALF (in its absolute discretion).
- (e) Waiver of a breach or non-fulfilment in respect of one Condition Precedent does not constitute:

- (i) a waiver of a breach or non-fulfilment of any other Condition Precedent resulting from the same event; or
- (ii) a waiver of a breach or non-fulfilment of that Condition Precedent resulting from any other event.

### **3.4. Termination on failure of Condition Precedent**

(a) If:

- (i) a Condition Precedent is not satisfied or waived by the date specified for its satisfaction;
- (ii) a Condition Precedent becomes incapable of being satisfied by the date specified for its satisfaction and is not waived; or
- (iii) the Scheme has not become Effective by the End Date,

and the relevant occurrence or the failure of the Condition Precedent does not arise out of a breach of Clause 3.2 or 3.5, then ALF and the Responsible Entity must consult in good faith with a view to:

- (iv) determining whether the Transaction may proceed by way of alternative means or methods and, if so, agree on the terms of such alternative means or methods;
- (v) changing the date of the application to be made to the Court for an order under sections 411(4)(b) and 413 of the Corporations Act approving the Scheme or adjourning that application (as applicable) to another date agreed by ALF and the Responsible Entity (being a date not later than 5 Business Days before the End Date);
- (vi) adjourning, or changing the date of the Scheme Meeting or the General Meeting; or
- (vii) extending the End Date.

(b) If:

- (i) ALF and the Responsible Entity are unable to reach agreement under Clause 3.4(a) within 5 Business Days of the date on which they both become aware that the Condition Precedent is not satisfied or has become incapable of being satisfied (or, if earlier, by 8.00 am on the Second Court Date); or
- (ii) the Scheme has not become Effective by the End Date,

then unless the Condition Precedent is waived (and subject to Clause 3.4(c)), either may terminate this Deed at any time prior to 8.00 am on the Second Court Date with immediate effect by written notice to the other Parties.

(c) A Party may not terminate this Deed under Clause 3.4(b), if the relevant Condition Precedent has not been satisfied, or is incapable of being satisfied, or there is an occurrence that will prevent the Condition Precedent being satisfied by the date specified in this Deed for its satisfaction, as a result of:

- (i) a deliberate act or omission by that Party, or any of its Representatives; or:
- (ii) a breach of this Deed by that Party.

- (d) Subject to any rights or obligations arising under or pursuant to Clauses that are expressed to survive termination, on termination of this Deed, no Party has any rights against or obligations to any other Party under this Deed except for those rights and obligations which accrued prior to termination.

### **3.5. Certain notices**

- (a) If, before the time specified for satisfaction of a Condition Precedent, an event that will prevent that Condition Precedent being satisfied occurs, the Party with knowledge of that event must promptly give the other Party written notice of that event.
- (b) ALF must promptly advise the Responsible Entity orally and in writing of any change or event causing, or which, so far as can reasonably be foreseen, would cause:
  - (i) a representation or warranty provided in this Deed by ALF (**ALF Warranty**) to be false in a material respect;
  - (ii) a breach or non-fulfilment of any of the Conditions Precedent; or
  - (iii) a material breach of this Deed by a member of ALF or its Representatives.
- (c) The Responsible Entity must promptly advise ALF orally and in writing of any change or event causing, or which, so far as can reasonably be foreseen, would cause:
  - (i) a representation or warranty provided in this Deed by the Responsible Entity (**Responsible Entity Warranty**) to be false in a material respect;
  - (ii) a breach or non-fulfilment of any of the Conditions Precedent; or
  - (iii) a material breach of this Deed by the Responsible Entity or its Representatives.

### **3.6. Certification**

The Manager and the Responsible Entity will provide to the Court on the Second Court Date a certificate executed as a deed, or such other evidence as the Court requests, as required by clause 3.2 of the Scheme.

## **4. IMPLEMENTATION**

### **4.1. Collection of KYC Information**

The Responsible Entity will use reasonable endeavours to obtain KYC Information and carry out Applicable Customer Identification Procedures in relation to Scheme Participants (other than Ineligible Foreign Shareholders) prior to the Implementation Date.

### **4.2. ALF's obligations**

ALF must take all necessary steps to implement the Transaction as soon as is reasonably practicable, including doing any acts it is authorised and able to do, on behalf of ALF Shareholders and including each of the following:

- (a) **preparation of Scheme Booklet:** subject to Clauses 4.2(h) and 4.4(a), prepare and despatch the Scheme Booklet in accordance with all applicable laws and in particular with the Corporations Act, RG 60, Regulation 5.1.01 and Schedule 8 of the *Corporations Regulations 2001* (Cth).

- (b) **section 411(17)(b) statement:** apply to ASIC for the production of:
  - (i) an indication of intent letter stating that it does not intend to appear at Court on the First Court Date; and
  - (ii) a statement under section 411(17)(b) of the Corporations Act stating that ASIC has no objections to the Scheme;
- (c) **Court direction:** apply to the Court for orders directing ALF to convene the Scheme Meeting;
- (d) **Scheme Meeting:** convene the Scheme Meeting to approve the Scheme in accordance with the orders made by the Court pursuant to sections 411(1) and 413 of the Corporations Act;
- (e) **General Meeting:** convene the General Meeting to approve the Capital Reduction Resolution and the Termination Fee Resolution;
- (f) **Court approval:** subject to all Conditions Precedent in Clause 3.1 (other than Clause 3.1(c)) being satisfied or waived in accordance with this Deed, apply to the Court for orders approving the Scheme as agreed to by the ALF Shareholders at the Scheme Meeting;
- (g) **lodge copy of Court order:** lodge with ASIC an office copy of the Court orders approving the Scheme as agreed to by the ALF Shareholders at the Scheme Meeting no later than one Business Day after the day such office copy is received (or such later date as agreed in writing by ALF, the Responsible Entity and the Manager);
- (h) **consultation with the Responsible Entity and the Manager:** consult with the Responsible Entity and the Manager as to the content and presentation of the application to the Court and the Scheme Booklet including:
  - (i) providing to the Responsible Entity and the Manager drafts of the Scheme Booklet for the purpose of enabling the Responsible Entity and the Manager to review and comment on those draft documents;
  - (ii) taking all comments made by the Responsible Entity and the Manager into account in good faith when producing a revised draft of the Scheme Booklet;
  - (iii) providing to the Responsible Entity and the Manager a revised draft of the Scheme Booklet within a reasonable time before the Regulator's Draft is finalised and to enable the Responsible Entity and the Manager to review the Regulator's Draft before its submission; and
  - (iv) obtaining written approval from the Responsible Entity and the Manager for the form and content in which the Responsible Entity Information and the Manager Information (respectively) appears in the Scheme Booklet which must not be unreasonably withheld or delayed;
- (i) **information:** provide all necessary information, or procure that the Registry provides all necessary information, in each case in a form reasonably requested by the Responsible Entity and the Manager, about the Transaction and ALF Shareholders to the Responsible Entity and the Manager and their authorised Representatives which the Responsible Entity and the Manager reasonably require in order to facilitate the in specie distribution by ALF of the Scheme Consideration;

- (j) **ASIC review:** keep the Responsible Entity and the Manager informed of any matters raised by ASIC in relation to the Scheme Booklet or the Scheme, and use reasonable endeavours to take into consideration in resolving such matters any issues raised by the Responsible Entity;
- (k) **Independent Expert:** promptly appoint the Independent Expert and provide assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for the Scheme Booklet as soon as practicable;
- (l) **Approvals:** subject to the Scheme becoming Effective, on or before the Implementation Date itself take, or procure that the Directors take, the following actions:
  - (i) the Directors convene and hold a meeting to:
    - (A) approve and otherwise give effect to the transfer of all of the ALF Assets to the Responsible Entity in consideration for Units with an aggregate value equal to the Completion Net Assets and equal in number to the number of Scheme Shares;
    - (B) approve the Capital Reduction and in specie distribution of Scheme Consideration in accordance with the Scheme on the Implementation Date;
    - (C) determine the Dividend Amount and approve the cash payment to each Scheme Participant of their respective Dividend Entitlements on the Implementation Date; and
  - (ii) subject to distribution of the Scheme Consideration in accordance with the Scheme, direct the making of the requisite entry in the Share Register to effect the cancellation of the Scheme Shares and the existing share certificates issued in respect of the Scheme Shares (if any);
- (m) **asset transfer:** if the Scheme becomes Effective do all things necessary to effect the transfer of the ALF Assets as contemplated by the Scheme;
- (n) **Dividend:** subject to the Directors making a determination to pay the Dividend and subject to the Scheme becoming Effective, pay the Dividend Entitlement of each Scheme Participant in cash on the Implementation Date;
- (o) **Capital Reduction:** if the Scheme becomes Effective and subject to all approvals in accordance with this clause 4.1 effect Capital Reduction by applying Capital Reduction Entitlement of each Scheme Participant via the in specie distribution of the Scheme Consideration on the Implementation Date cancelling all Scheme Shares;
- (p) **transfer of net proceeds of Withdrawals:** subject to clause 4.2(n) occurring, procure the payment of the net proceeds of the Withdrawals to Ineligible Foreign Shareholders (as detailed in clause 4.10);
- (q) **ASX:**
  - (i) apply to the ASX to ensure that Scheme Shares are suspended from official quotation on the Effective Date; and
  - (ii) once the Scheme becomes Effective, apply to the ASX to ensure that it is removed from the official list of ASX on the Implementation Date;

- (r) **issue of a share to the Manager:** if the Scheme becomes Effective, on the Implementation Date, immediately following completion of the Capital Reduction, issue one fully paid ordinary share at an issue price of \$1 to the Manager;
- (s) **representation:** procure that it is represented by counsel at the Court hearings convened for the purposes of sections 411(4)(b) and 413 of the Corporations Act, at which through its counsel, ALF will undertake (if requested by the Court) to do all such things and take all such steps within its power as are necessary in order to ensure the fulfilment of its obligations under this Deed and the Scheme;
- (t) **Termination Deed and management and performance fees:** if the Scheme becomes Effective, execute the Termination Deed and after the Effective Date but before the Implementation Date, pay to the Manager the Early Termination Fee and all accrued and outstanding management and performance fees payable under the ALF Management Agreement up to the Effective Date; and
- (u) **Completion Steps:** comply with all of its obligations under Clauses 4.9 and 4.10.

#### **4.3. The Responsible Entity's obligations**

The Responsible Entity must take all necessary steps to implement the Transaction as soon as is reasonably practicable, including doing each of the following:

- (a) **the Responsible Entity Information:** prepare and promptly provide to ALF the Responsible Entity Information for inclusion in the Scheme Booklet to comply with all applicable laws and ASIC regulatory guides, and consult with ALF as to the content and presentation of the Responsible Entity Information in the Scheme Booklet, such consultation to include allowing ALF a reasonable opportunity to review and make comments on successive drafts of the Responsible Entity Information before lodgement of the Regulator's Draft with ASIC;
- (b) **review of Scheme Booklet:** review the drafts of the Scheme Booklet prepared by ALF and provide comments, if any, as soon as practicable;
- (c) **confirmation of the Responsible Entity Information:** before the Regulator's Draft is provided to ASIC pursuant to section 411(2) of the Corporations Act, either:
  - (i) confirm in writing to ALF that the Responsible Entity Information in the form and context in which it appears in the Scheme Booklet is not misleading or deceptive in any material respect and does not contain any material omission; or
  - (ii) provide to ALF the changes required to ensure that the Responsible Entity Information in the form and context in which it appears in the Scheme Booklet is not misleading or deceptive in any material respect and does not contain any material omission;
- (d) **Independent Expert's report:** provide any assistance or information reasonably requested by ALF or by the Independent Expert in connection with the preparation of the Independent Expert's report to be sent together with the Scheme Booklet;
- (e) **update Responsible Entity Information:** if:
  - (i) at any time after the despatch of the Scheme Booklet, the Responsible Entity becomes aware of new information which, were it known at the time of despatch, should have been included in any of the Responsible Entity Information provided previously to ALF; or

- (ii) at any time, the Responsible Entity becomes aware that any part of the Responsible Entity Information provided previously to ALF is misleading or deceptive in any material respect (whether by omission or otherwise),

it must advise ALF so that ALF can determine whether supplementary disclosure to ALF Shareholders is required;

- (f) **Deed Poll:** on or prior to the First Court Date, enter into the Deed Poll;
- (g) **Court proceedings:** undertake (if requested by the Court) to do all such things and take all such steps within its power as are necessary in order to ensure the fulfilment of its obligations under this Deed and the Scheme;
- (h) **KYC Information reports:** report or cause an agent to report to ALF and the Manager on those Scheme Participants that have provided their KYC Information prior to the Implementation Date;
- (i) **asset transfer:** if the Scheme becomes Effective, accept and otherwise do all things necessary to effect the transfer of the Completion Net Assets to the Watermark Absolute Return Fund as contemplated by the Scheme on the Implementation Date including:
  - (i) allot and issue to ALF 1 Unit for each Scheme Share on issue as at the Record Date;
  - (ii) ensure that on issue, each Unit issued to ALF is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest;
  - (iii) approve ALF as holders of each Unit issued to it; and
  - (iv) update the unit register for the Watermark Absolute Return Fund accordingly;
- (j) **Fund PDS:** prepare and finalise a product disclosure statement with respect to the New Units in accordance with the requirements of the Corporations Act and all applicable laws; and
- (k) **Transfer of Units:** subject to the Scheme becoming Effective, on the Implementation Date the Responsible Entity must:
  - (i) approve transfer of Units by ALF to Scheme Participants and the Nominee in accordance with Clause 4.9 and the Scheme;
  - (ii) ensure that on each Unit so transfer is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest;
  - (iii) approve the Scheme Participants and the Nominee and the Independent Custodian transferred Units by ALF in accordance with the Scheme as holders of Units; and
  - (iv) update the unit register for the Watermark Absolute Return Fund accordingly.

#### **4.4. The Manager's Obligations**

- (a) **assistance with preparation of Scheme Booklet:** use all reasonable endeavours to assist ALF and the Responsible Entity with the preparation of the Scheme Booklet as a whole;

- (b) **the Manager Information:** prepare and promptly provide to ALF the Manager Information for inclusion in the Scheme Booklet to comply with all applicable laws and ASIC regulatory guides, and consult with ALF as to the content and presentation of the Manager Entity Information in the Scheme Booklet, such consultation to include allowing ALF a reasonable opportunity to review and make comments on successive drafts of the Manager Information before lodgement of the Regulator's Draft with ASIC;
- (c) **review of Scheme Booklet:** review the drafts of the Scheme Booklet prepared by ALF and provide comments, if any, as soon as practicable;
- (d) **confirmation of the Manager Information:** before the Regulator's Draft is provided to ASIC pursuant to section 411(2) of the Corporations Act, either:
  - (i) confirm in writing to ALF that the Manager Information in the form and context in which it appears in the Scheme Booklet is not misleading or deceptive in any material respect and does not contain any material omission; or
  - (ii) provide to ALF the changes required to ensure that the Manager Information in the form and context in which it appears in the Scheme Booklet is not misleading or deceptive in any material respect and does not contain any material omission;
- (e) **Independent Expert's report:** provide any assistance or information reasonably requested by ALF or by the Independent Expert in connection with the preparation of the Independent Expert's report to be sent together with the Scheme Booklet;
- (f) **update Manager Information:** if:
  - (i) at any time after the despatch of the Scheme Booklet, the Manager becomes aware of new information which, were it known at the time of despatch, should have been included in any of the Manager Information provided previously to ALF; or
  - (ii) at any time, the Manager becomes aware that any part of the Manager Information provided previously to ALF is misleading or deceptive in any material respect (whether by omission or otherwise),

it must advise ALF so that ALF can determine whether supplementary disclosure to ALF Shareholders is required;

- (g) **liquidation of ALF portfolio:** the Manager must use all reasonable endeavours, subject to acting in the best interests of ALF Shareholders to liquidate and convert the assets of ALF into cash as soon as practicable following the date of this Deed;
- (h) **agreement to become ALF's sole shareholder:** if the Scheme becomes Effective the Manager must, on the Record Date and subject to completion of the Capital Reduction, do all things necessary to subscribe for one fully paid ordinary share in ALF issued at \$1.00 and otherwise agree to be bound by the ALF Constitution.
- (i) **Termination Deed:** if the Scheme becomes Effective, execute the Termination Deed.

#### **4.5. Conduct of business**

- (a) From the date of this Deed up to and including the Implementation Date, ALF must, and the Manager must (subject to clause 4.4(g) and to the extent it is within its



power to do so) procure that ALF does, conduct its business in the ordinary and proper course of business consistent with past practice, keep the Responsible Entity informed of the conduct of business, and make all reasonable efforts to:

- (i) keep available the services of the Directors and ALF's other officers;
  - (ii) maintain and preserve satisfactory relationships with its suppliers and others having business dealings with ALF (including using reasonable endeavours to obtain consents from third parties to any change of control provisions in contracts or arrangements to which ALF is a party);
  - (iii) liquidate and convert the assets of ALF into cash as soon as practicable following the date of this Deed but otherwise not enter into any lines of business or other activities in which ALF is not engaged as of the date of this Deed;
  - (iv) preserve intact its asset and business organisation;
  - (v) not allow any tax payment that is due and payable to remain unpaid; and
  - (vi) manage its working capital in the ordinary course of ordinary business consistent with past practice.
- (b) Nothing in Clause 4.5(a) restrains ALF from taking any action permitted by this Deed or with the prior written consent of the Responsible Entity and the Manager, which consent will not be unreasonably withheld or delayed.
- (c) The Parties must consult with each other in good faith immediately after execution of this Deed and for the period up to the Implementation Date, to discuss and assist in preparing a transition plan.

#### **4.6. Independent Board Committee recommendation**

- (a) Subject to Clause 4.6(a)(ii), ALF must use its best endeavours to procure that:
- (i) the Independent Board Committee unanimously recommend in the Scheme Booklet that, in the absence of a Superior Competing Transaction and subject to the Independent Expert concluding or continuing to conclude that the Transaction is in the best interests of ALF Shareholders, ALF Shareholders vote in favour of the Transaction; and
  - (ii) the Scheme Booklet will include a statement to the effect that each Independent Director will, in the absence of a Superior Competing Transaction and subject to the Independent Expert concluding or continuing to conclude that the Transaction is in the best interests of ALF Shareholders, vote (or procure the voting of) all Independent Director Shares in favour of the Scheme at the Scheme Meeting and in favour of the Capital Reduction Resolution and Termination Resolution at the General Meeting. ALF must use its best endeavours to procure that the Independent Board Committee collectively, and the Independent Directors of the Board individually, do not change, withdraw or modify its, his or her recommendation in the Scheme Booklet that ALF Shareholders vote in favour of the Transaction or their statement that they will vote (or procure the voting) of its, his or her Independent Director Shares in favour of the Scheme at the Scheme Meeting and in favour of the Capital Reduction Resolution and Termination Resolution at the General Meeting or make a recommendation or statement that is inconsistent with such recommendation or statement, unless:

- (A) ALF receives a Superior Competing Proposal and the Independent Board Committee or Independent Director has first obtained written legal advice from its legal advisors that a failure by the Independent Board Committee or Independent Director to change, withdraw or modify its, his or her recommendation or statement or make a recommendation or statement that is inconsistent with it in response to the Superior Competing Proposal would be reasonably likely to constitute a breach of their fiduciary or statutory obligations; or
  - (B) the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Scheme is not in the best interests of ALF Shareholders, or adversely changes its previously given opinion in the Independent Expert's Report (or any update or variation to that report) that the Scheme is in the best interests of ALF Shareholders.
- (b) If the Independent Board Committee proposes to change, withdraw or modify its recommendation or statement in accordance with Clause 4.6(a)(ii), or make a recommendation or statement that is inconsistent with such recommendation or statement in accordance with Clause 4.6(a)(ii) ALF must immediately notify the Responsible Entity and the Manager in writing.
- (c) In the event that ALF provides notice under Clause 4.6(b) the Manager will be entitled to terminate this Deed by notice to ALF and the Responsible Entity with immediate effect.

#### **4.7. ALF Facilitation**

- (a) Where in this Clause 4 an obligation is imposed on ALF to undertake any act or to ensure that an act does not occur, ALF must, in addition to doing so itself, instruct the Manager to undertake that act or refrain from undertaking that act (as the case requires) where the terms of the ALF Management Agreement or any other agreement, arrangement or understanding or course of conduct between the Manager and ALF which imposes responsibility for that matter on the Manager to the extent that the Manager must act in accordance with that instruction from ALF.
- (b) Provided that ALF complies with Clause 4.7(a), any breach of an obligation imposed on ALF under this Clause 4 that is caused by any act that the Manager undertakes or refrains from undertaking will not be considered to be a breach of this Deed by ALF.

#### **4.8. Responsible Entity Facilitation**

- (a) Where in this Clause 4 an obligation is imposed on the Responsible Entity to undertake any act or to ensure that an act does not occur, the Responsible Entity must, in addition to doing so itself, instruct the Manager to undertake that act or refrain from undertaking that act (as the case requires) where the terms of the Watermark Absolute Return Fund Management Agreement or any other agreement, arrangement or understanding or course of conduct between the Manager and the Responsible Entity which imposes responsibility for that matter on the Manager to the extent that the Manager must act in accordance with that instruction from the Responsible Entity.
- (b) Provided that the Responsible Entity complies with Clause 4.8(a), any breach of an obligation imposed on the Responsible Entity under this Clause 4 that is caused by any act that the Manager undertakes or refrains from undertaking will not be considered to be a breach of this Deed by the Responsible Entity.

#### **4.9. Completion Steps**

Subject to the satisfaction or waiver of the Conditions and this Deed not having been terminated before Effective Date, Completion must occur on the Implementation Date and at Completion the following events must occur in the following sequence:

- (a) ALF must in satisfaction of its obligations to pay the Dividend, pay the Dividend Entitlement of each Scheme Participant by dispatching or procuring the Share Registry to dispatch, the relevant cash amount:
  - (i) to the Scheme Participant's nominated bank account as noted in the Share Register at the Record Date; or
  - (ii) if no account is nominated, by mailing a cheque to the address as show in the Share Register at the Record Date;
- (b) ALF must itself transfer or procure that the Manager under the ALF Management Agreement transfers legal and beneficial title to the ALF Assets to the Responsible Entity on behalf of the Watermark Absolute Return Fund, or as it may direct, free of any security interests and other Third Party rights;
- (c) ALF must apply for the number of Units equal to 1 Unit for every Scheme Share on issue on the Record Date;
- (d) ALF must itself deliver or procure that the Manager delivers to the Watermark Absolute Return Fund or as it may direct:
  - (i) all transfer documents and instructions to Third Parties necessary to transfer title to the ALF Assets executed by the transferor;
  - (ii) all title documents relating to ALF Assets; and
  - (iii) all Records relating in any way to the ALF Assets;
- (e) the Responsible Entity must issue to ALF and allot Units with an aggregate value equal to the Completion Net Assets (and equal to 1 Unit for every Scheme Share on issue on the Record Date);
- (f) ALF must in satisfaction of its obligations to undertake the Capital Reduction and the Capital Reduction Entitlement of each Scheme Participant, distribute the Scheme Consideration in accordance Scheme as follows:
  - (i) for each Scheme Participant that is not an Ineligible Foreign Shareholder, by ALF transferring to that Scheme Participant that number of Units equal to the number of Scheme Shares held by that Scheme Participant on the Record Date;
  - (ii) for each Ineligible Foreign Shareholder, by ALF transferring to the Nominee that number of Units equal to the number of Scheme Shares held by each Ineligible Foreign Shareholder on the Record Date;
- (g) the Responsible Entity must immediately approve the transfer of Units to Scheme Participants and the Nominee on the basis detailed in Clause 4.9(d) and the Scheme;
- (h) ALF must issue one fully paid ordinary share to the Manager as detailed in Clause 4.2(r).

#### **4.10. Completion Steps in relation to Ineligible Foreign Shareholders**

Notwithstanding any other provision in the Deed:

- (a) ALF:
  - (i) will not distribute or transfer Units to an Ineligible Foreign Shareholder which that Scheme Participant would otherwise be entitled under the Scheme (**Ineligible Units**);
  - (ii) will transfer to the Nominee that number of Units equal to the number of Scheme Shares held by each Ineligible Foreign Shareholder on the Record Date, in consideration for the application of their Capital Reduction Entitlements; and
- (b) the Responsible Entity and ALF must procure the Nominee to:
  - (i) apply to withdraw the Ineligible Units as soon as reasonably practicable and in any event no later than the end of the Withdrawal Period (**Withdrawal**); and
  - (ii) within 5 Business Days after the end of the Withdrawal Period, remit the net proceeds of the Withdrawal received (after deducting any applicable brokerage, stamp duty and other costs, taxes and charges (rounded down to the nearest whole cent, and otherwise in accordance with the Scheme) to each Ineligible Foreign Shareholder.
- (c) The payment of the net proceeds to the Ineligible Foreign Shareholders under clause 4.10(b)(ii) will be paid in Australian dollars by:
  - (i) electronic funds transfer to a bank account as noted on ALF's share register on the Record Date; or
  - (ii) whether or not an account is noted on ALF's share register, cheque drawn on an Australian bank and sent by pre-paid post to the Ineligible Foreign Shareholder's Registered Address at the Record Date.

#### **4.11. No Shop and No Talk**

- (a) During Exclusivity Period, ALF must ensure that neither it nor any of its Representatives directly or indirectly:
  - (i) solicits, invites, encourages or initiates any enquiries, negotiations or discussions; or
  - (ii) communicates any intention to do any of these things,with a view to obtaining any offer, proposal or expression of interest from any person in relation to a competing transaction.
- (b) During the Exclusivity Period, subject to the following, ALF must ensure that neither it nor any of its Representatives:
  - (i) negotiates or enters into; or
  - (ii) participates in negotiations or discussions with any other person regarding,

a competing transaction or any agreement, understanding or arrangement that may be reasonably expected to lead to a competing transaction, even if that person's competing transaction was not directly or indirectly solicited, invited, encouraged or initiated by ALF or any of its Representatives or the person has publicly announced the competing transaction.

- (c) The above restrictions do not apply to the extent that they restrict ALF or the ALF Independent Board Committee from taking or refusing to take any action with respect to a Superior Competing Transaction (which was not solicited, invited, encouraged or initiated by ALF in contravention of clause 4.11(a)) provided that the Independent Board Committee has determined, in good faith that:
  - (i) after consultation with their financial advisors, such a genuine competing transaction is, or could reasonably be considered to become, a superior proposal; and
  - (ii) after receiving written legal advice from their external legal advisers that failing to respond to such a genuine competing transaction would be reasonably likely to constitute a breach of the fiduciary or statutory obligations or members of the Independent Board Committee.

## **5. REPRESENTATIONS AND UNDERTAKINGS**

### **5.1. Responsible Entity's representations**

The Responsible Entity represents to ALF (in its own right and separately as trustee or nominee for each of the other ALF Parties) and the Manager (in its own right and separately as trustee or nominee for each of the other Manager Parties) that:

- (a) the Responsible Entity Information provided to ALF for inclusion in the Scheme Booklet will be provided in good faith and on the understanding that each of the ALF Parties will rely on that information to prepare the Scheme Booklet and to propose and implement the Transaction in accordance with the Corporations Act;
- (b) the Responsible Entity Information provided under Clause 4.3(a) included in the Scheme Booklet, as at the date the Scheme Booklet is despatched to ALF Shareholders, will (to the best of the Responsible Entity's knowledge, information and belief, after due enquiry) not contain any statement which is materially misleading or deceptive including by way of material omission from that statement;
- (c) the Responsible Entity will, as a continuing obligation, provide to ALF all further or new information which it becomes aware of after the Scheme Booklet has been despatched until the date of the Scheme Meeting which is necessary to ensure that there would be no breach of Clause 5.1(b) if it applied as at the date on which that information arose;
- (d) the Responsible Entity is a validly existing corporation registered under the laws of its place of incorporation;
- (e) the execution and delivery of this Deed has been properly authorised by all necessary corporate action of the Responsible Entity;
- (f) the Responsible Entity has full corporate power and lawful authority to execute, deliver and perform this Deed, including under the Watermark Absolute Return Fund Constitution; and
- (g) this Deed does not conflict with or result in the breach of or default under the Watermark Absolute Return Fund Constitution and to the best of the Responsible

Entity's knowledge any other agreement or any writ, order or injunction, judgment, law, rule or regulation to which it is party or by which it is bound.

## **5.2. ALF's representations**

ALF represents to the Responsible Entity and its directors and officers (in its own right and separately as trustee or nominee for each of the other the Responsible Entity Parties) and the Manager (in its own right and separately as trustee or nominee for each of the other Manager Parties) that:

- (a) no information (other than the Responsible Entity Information and the Independent Expert's Report) contained in the Scheme Booklet, as at the date the Scheme Booklet is despatched to ALF Shareholders, will contain (to the best of ALF's knowledge, information and belief, after due enquiry) any statement which is materially misleading or deceptive, including by way of material omission from that statement;
- (b) ALF is a validly existing corporation registered under the laws of its place of incorporation;
- (c) the execution and delivery of this Deed has been properly authorised by all necessary corporate action of ALF;
- (d) ALF has full corporate power and lawful authority to execute and deliver this Deed and to perform or cause to be performed its obligations under this Deed;
- (e) this Deed does not conflict with or result in the breach of or default under any provision of the ALF Constitution or any material term or provision of any agreement or any writ, order or injunction, judgment, law, rule or regulation to which it is party or subject or by which it is bound; and
- (f) its capital structure, including all issued securities, as at the date of this Deed is as set out in clause 2(b) of the Scheme.

## **5.3. Manager representations**

The Manager represents to ALF and its directors and officers (in its own right and separately as trustee or nominee for each of the other the ALF Parties) and the Responsible Entity (in its own right and separately as trustee or nominee for each of the other Responsible Entity Parties) that:

- (a) the Manager Information provided to ALF for inclusion in the Scheme Booklet, as at the date the Scheme Booklet is despatched to ALF Shareholders, will contain (to the best of the Manager's knowledge, information and belief, after due enquiry) any statement which is materially misleading or deceptive, including by way of material omission from that statement;
- (b) the Manager is a validly existing corporation registered under the laws of its place of incorporation;
- (c) the execution and delivery of this Deed has been properly authorised by all necessary corporate action of the Manager;
- (d) the Manager has full corporate power and lawful authority to execute and deliver this Deed and to perform or cause to be performed its obligations under this Deed; and
- (e) this Deed does not conflict with or result in the breach of or default under any provision of the Manager Constitution or any material term or provision of any

agreement or any writ, order or injunction, judgment, law, rule or regulation to which it is party or subject or by which it is bound.

#### **5.4. Survival of representations**

Each representation and warranty in Clauses 5.1, 5.2 and 5.3:

- (a) is severable;
- (b) survives the termination of this Deed; and
- (c) is given with the intention that liability under it is not confined to breaches which are discovered before the date of termination of this Deed.

### **6. PUBLIC ANNOUNCEMENTS**

#### **6.1. Announcement of Transaction**

Immediately after the execution of this Deed, ALF must issue a public announcement in a form previously agreed in writing between ALF, the Responsible Entity and the Manager.

### **7. CONFIDENTIALITY**

#### **7.1. Confidentiality**

- (a) Each Party acknowledges and agrees that all information received by it from any other Party before or after the date of this Deed is confidential information and must remain confidential and not be disclosed to any Third Party without the consent of the other Parties.
- (b) A Party may make any disclosures in relation to this Deed as it thinks necessary:
  - (i) to its professional advisers, insurers, bankers, financial advisers and financiers, if those persons undertake to keep information disclosed confidential;
  - (ii) to comply with any Law or requirement of any Government Authority or the rules of ASX; or
  - (iii) to its Representatives to whom it is necessary to disclose the information if that Representative undertakes to keep the information disclosed confidential.

### **8. LIABILITY OF THE RESPONSIBLE ENTITY**

- (a) ALF and the Manager agree that the Responsible Entity enters into this Deed in its capacity as trustee of the Watermark Absolute Return Fund and in no other capacity.
- (b) ALF and the Manager agree that the liability of the Responsible Entity to the Manager and ALF, their officers, or agents or any other person under or arising out of this Deed in relation to the Watermark Absolute Return Fund is limited to the amount that the Responsible Entity actually receives in the exercise of its right of indemnity against the Watermark Absolute Return Fund.
- (c) Each of the Manager and ALF may enforce its rights under this Deed against the Responsible Entity only to the extent of the Responsible Entity's right of indemnity out of the assets of the Watermark Absolute Return Fund.

- (d) If the Manager or ALF does not recover all money owing to it by enforcing the rights referred to in clause 8(c), it may not seek to recover the shortfall by:
  - (i) bringing proceedings against the Responsible Entity in its personal capacity; or
  - (ii) applying to have the Responsible Entity wound up or proving in the winding up of the Responsible Entity unless another creditor has initiated proceedings to wind up the Responsible Entity.
- (e) Each of the Manager and ALF waives its rights and releases the Responsible Entity from any personal liability whatsoever, in respect of any loss or damage which:
  - (i) it may suffer as a result of the Responsible Entity's non-performance of its obligations and liabilities under this Deed; and
  - (ii) cannot be paid or satisfied out of the assets of the Watermark Absolute Return Fund out of which the Responsible Entity is entitled to be indemnified in respect of any liability incurred as the trustee.
- (f) The limitation in this clause 8 does not apply to the extent that any liability arises from fraud, gross negligence or breach of trust by the Responsible Entity as the trustee of the Watermark Absolute Return Fund. For these purposes, it is agreed that the Responsible Entity cannot be regarded as having acted fraudulently, with gross negligence or in breach of trust to the extent to which the fraud, gross negligence or breach of trust has been caused or contributed to by a failure of either the Manager or ALF to fulfil its obligations under this Deed or any other act or omission of either the Manager or ALF or any other person.
- (g) Nothing in clause 8(f) shall make the Responsible Entity liable to any claim for an amount greater than the amount which the Responsible Entity would have been able to claim and recover from the assets of the Watermark Absolute Return Fund in relation to the relevant liability if the Responsible Entity's right of indemnification out of the assets of the Watermark Absolute Return Fund had not been prejudiced by the Responsible Entity's failure to properly perform its duties.
- (h) The Responsible Entity is not obliged to do or refrain from doing anything under this Deed (including incur any liability) unless the Responsible Entity's liability is limited in the same manner as set out in paragraph 8(a) to 8(g) of this clause.
- (i) Each of the Manager and ALF acknowledges and agrees that in respect of any liability or obligation incurred by the Responsible Entity under or arising out of this Deed, it shall not be permitted to set off liabilities or obligations against it nor have any recourse to, the assets of any managed investment scheme or trust for which the Responsible Entity has been appointed as responsible entity or trustee, other than the Watermark Absolute Return Fund.
- (j) This clause applies despite any other provision in this Deed and extends to all liabilities and obligations of the Responsible Entity in any way connected with any representations, warranty, conduct, omission, agreement or transaction related to this Deed. In the event of any inconsistency, this clause prevails and survives termination of this Deed.



## **9. TERMINATION**

### **9.1. Termination by any Party**

Unless otherwise agreed to by ALF, the Responsible Entity or the Manager, any Party may terminate this Deed by giving written notice to the other Party at any time prior to the Effective Date where:

- (a) one of the other Parties is in material breach of any clause, including a warranty, of this Deed which is incapable of being remedied, or if the breach is capable of being remedied, continue to exist for more than 10 Business Days;
- (b) a Court or other Governmental Agency has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme; or
- (c) any condition precedent referred to in Clause 3 has not been satisfied or waived in accordance with this Deed.

### **9.2. Effect of termination**

In the event of termination of this Deed by any Party pursuant to this Clause 9 or Clause 4.6(c), this Deed will become void and have no effect, other than in respect of any liability for an antecedent breach of this Deed.

## **10. GST**

### **10.1. GST**

- (a) Any consideration or amount payable under this Deed, including any non-monetary consideration (as reduced in accordance with Clause 10.1(e) if required) (**Consideration**) is exclusive of GST.
- (b) If GST is or becomes payable on a Supply made under or in connection with this Deed, an additional amount (**Additional Amount**) is payable by the Party providing consideration for the Supply (**Recipient**) equal to the amount of GST payable on that Supply as calculated by the Party making the Supply (**Supplier**) in accordance with the GST Law.
- (c) The Additional Amount payable under Clause 10.1(b) is payable at the same time and in the same manner as the Consideration for the Supply, and the Supplier must provide the Recipient with a Tax Invoice. However, the Additional Amount is only payable on receipt of a valid Tax Invoice.
- (d) If for any reason the amount of GST payable on a Supply (taking into account any Decreasing or Increasing Adjustments in relation to the Supply) varies from the Additional Amount payable by the Recipient under Clause 10.1(b):
  - (i) the Supplier must provide a refund or credit to the Recipient, or the Recipient must pay a further amount to the Supplier, as appropriate;
  - (ii) the refund, credit or further amount (as the case may be) will be calculated by the Supplier in accordance with the GST Law; and
  - (iii) the Supplier must notify the Recipient of the refund, credit or further amount within 14 days after becoming aware of the variation to the amount of GST payable. Any refund or credit must accompany such notification or

the Recipient must pay any further amount within 7 days after receiving such notification, as appropriate.

- (e) Despite any other provision in this Deed:
  - (i) if an amount payable under or in connection with this Deed (whether by way of reimbursement, indemnity or otherwise) is calculated by reference to an amount incurred by a Party, whether by way of cost, expense, outlay, disbursement or otherwise (**Amount Incurred**), the amount payable must be reduced by the amount of any Input Tax Credit to which that Party is entitled in respect of that Amount Incurred; and
  - (ii) no Additional Amount is payable under Clause 10.1(b) in respect of a Supply to which section 84-5 of the GST Law applies.
- (f) Any reference in this clause to an Input Tax Credit to which a Party is entitled includes an Input Tax Credit arising from a Creditable Acquisition by that Party but to which the Representative Member of a GST Group of which the Party is a member is entitled.
- (g) Any term starting with a capital letter that is not defined in this Deed has the same meaning as the term has in the *A New Tax System (Goods & Services Tax) Act 1999* (Cth).

## **11. GENERAL**

### **11.1. No representation or reliance**

- (a) Each Party acknowledges that no Party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this Deed, except for representations or inducements expressly set out in this Deed.
- (b) Each Party acknowledges and confirms that it does not enter into this Deed in reliance on any representation or other inducement by or on behalf of any other Party, except for any representation or inducement expressly set out in this Deed.
- (c) Each Party acknowledges and confirms that Clauses 11.1(a) and 11.1(b) do not prejudice any rights a Party may have in relation to information which has been filed by the other Party with ASIC or ASX.

### **11.2. No merger**

The rights and obligations of the Parties do not merge on implementation of the Transaction. They survive the execution and delivery of any assignment or other document entered into for the purpose of implementing the Transaction.

### **11.3. Consents**

Any consent referred to in, or required under, this Deed from any Party may not be unreasonably withheld, unless this Deed expressly provides for that consent to be given in that Party's absolute discretion.

### **11.4. Notices**

Any communication under or in connection with this Deed:

- (a) must be in writing;

- (b) must be addressed as shown below:

**ALF**

Address: Level 23, Governor Philip Tower, 1 Farrer Place, Sydney NSW 2000  
Attention: Mark Licciardo  
Email: markl@mertons.com.au

**Responsible Entity**

Address: Level 2, 575 Bourke Street, Melbourne, Victoria 3000  
Attention: Matt Kilbride/Justin Evans  
Email: [mkilbride@eqt.com.au](mailto:mkilbride@eqt.com.au) and [jevans@eqt.com.au](mailto:jevans@eqt.com.au)

**Manager**

Address: Level 23, Governor Philip Tower, 1 Farrer Place, Sydney NSW 2000  
Fax no: +61 2 9252 1220  
Attention: Justin Braitling  
Email: [braitling@wffunds.com.au](mailto:braitling@wffunds.com.au)

(or as otherwise notified by that Party to the other Party from time to time);

- (c) must be signed by the Party making the communication or by a person duly authorised by that Party;
- (d) must be delivered or posted by prepaid post to the address, or by email to the email address, of the addressee, in accordance with Clause 11.4(b); and
- (e) is regarded as received by the addressee:
- (i) if sent by prepaid post, on the third Business Day after the date of posting to an address within Australia, and on the fifth Business Day after the date of posting to an address outside Australia;
  - (ii) if delivered by hand, on delivery at the address of the addressee as provided in Clause 11.4(b), unless delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day; and
  - (iii) if sent by email:
    - (A) when the sender receives an automated message confirming delivery; or
    - (B) subject to the email being sent within the hours of 9am and 5pm on a Business Day, 6 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that delivery failed,

whichever happens first.

### **11.5. Stamp Duty**

ALF undertakes and agrees to fully indemnify the Responsible Entity with respect to any amounts payable in connection with transfer of the ALF Assets and the issue of Units in accordance with this Deed.

### **11.6. Governing law and jurisdiction**

- (a) This Deed is governed by the laws of the State of New South Wales.
- (b) Each Party irrevocably submits to the non-exclusive jurisdiction of the courts of the State of New South Wales and courts competent to hear appeals from those courts.

### **11.7. Waivers**

- (a) Failure to exercise or enforce, a delay in exercising or enforcing, or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed by any Party does not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement, of that or any other right, power or remedy provided by law or under this Deed.
- (b) Any waiver or consent given by any Party under this Deed is only effective and binding on that Party if it is given or confirmed in writing by that Party.
- (c) No waiver of a breach of any term of this Deed operates as a waiver of another breach of that term or of a breach of any other term of this Deed.

### **11.8. Variation**

This Deed may only be varied by a document signed by, or on behalf of, each of the Parties.

### **11.9. Assignment**

A Party may not assign, novate or otherwise transfer any of its rights or obligations under this Deed without the prior written consent of the other Party.

### **11.10. Further action**

Each Party will do all things and execute all further documents necessary to give full effect to this Deed.

### **11.11. Entire agreement**

This Deed supersedes all previous agreements in respect of its subject matter and embodies the entire agreement between the Parties.

### **11.12. Counterparts**

- (a) This Deed may be executed in any number of counterparts.
- (b) All counterparts, taken together, constitute one instrument.
- (c) A Party may execute this Deed by signing any counterpart.
- (d) This Deed may be executed on the basis of an exchange of facsimile copies or electronic images (such as scanned copies or digital photos), and execution of this Deed by such means is a valid and sufficient execution.

**Schedule 1  
Timetable**

***[Not reproduced here. See page 9 of this Booklet.]***

**Schedule 2  
Scheme**

***[Not reproduced here. See Annexure C of this Booklet.]***

### Schedule 3 Deed Poll

THIS DEED POLL is made on

2020

BY

**Equity Trustees Limited** (ACN 004 031 298) as trustee of the Watermark Absolute Return Fund (ARSN 631 094 534) of Level 1, 575 Bourke Street, Melbourne, VIC, 3000 (**Responsible Entity**)

In favour of each Scheme Participant and ALF

#### RECITALS:

- A. ALF, the Responsible Entity and the Manager have entered into the Implementation Deed.
- B. In the Implementation Deed, the Responsible Entity agreed to enter into this Deed Poll.
- C. The Responsible Entity is entering into this Deed Poll for the purpose of covenanting in favour of ALF and the Scheme Participants to perform its obligations under the Scheme and the Implementation Deed.
- D. The effect of the Scheme will be that the ALF Assets will be transferred to the Responsible Entity to be acquired by the Fund in exchange for the issue of Units to ALF, ALF will distribute those Units in specie as the Scheme Consideration and the ALF Shares will be cancelled.

## 1. DEFINITIONS AND INTERPRETATION

### 1.1. DEFINITIONS

Capitalised terms in in this Deed Poll have the meaning set out in this Clause 1.1 or unless the context otherwise requires the meaning given in in the Scheme:

**ALF** means Australian Leaders Fund Limited (ACN 106 845 970) of Level 23, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000.

**Effective** means when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) and section 413(1) in relation to the Scheme.

**End Date** means 30 June 2021.

**Fund** means the Watermark Absolute Return Fund (ARSN 631 094 534).

**Fund Constitution** means the constitution of the Watermark Absolute Return Fund.

**Implementation Date** means the day 5 Business Days after the Scheme Record Date or such other date as ALF, the Responsible Entity and the Manager agree in writing.

**Implementation Deed** means the scheme implementation deed dated 21 December 2020 between ALF, the Responsible Entity and the Manager relating to the implementation of this Scheme.

**Ineligible Foreign Shareholder** means a Scheme Participant whose address as shown in the

Share Register is a place outside Australia, its external territories or New Zealand unless otherwise agreed by ALF, the Responsible Entity and the Manager in accordance with the Scheme.

**Ineligible Units** means the Units to which Ineligible Foreign Shareholders would have been transferred under the Scheme but for the operation of clause 4 of the Scheme.

**Manager** means Watermark Funds Management Pty Limited (ACN 106 302 505) of Level 23, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000.

**Scheme** means the scheme of arrangement under Part 5.1 of the Corporations Act between ALF and the Scheme Participants in Schedule 3 of the Implementation Deed subject to any alterations or conditions:

- (a) agreed to in writing by the Responsible Entity and ALF and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed by the Responsible Entity and ALF.

**Scheme Consideration** means the number of Units equal to one Unit for each Scheme Share on issue on the Record Date.

**Scheme Participant** means each person who is registered in the Share Register as the holder of a Scheme Share and for the purpose of this Deed Poll, includes ALF.

**Scheme Share** means a fully paid ordinary share in ALF on issue as at the Record Date.

**Unit** means a fully paid unit in the capital of the Watermark Absolute Return Fund issued subject to the fee arrangements detailed in the investment management agreement with between the Manager and the Responsible Entity dated 7 March 2019 as amended by the parties from time to time, including via side letter signed on or around 18 December 2020.

## **1.2. INTERPRETATION**

Clauses 1.2 and 1.3 of the Scheme apply to the interpretation of this Deed Poll, except that references to 'this Scheme' in those clauses are to be read as references to 'this Deed Poll'.

## **1.3. NATURE OF DEED POLL**

The Responsible Entity acknowledges that:

- (a) this Deed Poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not party to it; and
- (b) under the Scheme, each Scheme Participant irrevocably appoints ALF and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of enforcing this Deed Poll against the Responsible Entity.

## **2. CONDITIONS TO OBLIGATIONS**

### **2.1. CONDITIONS**

This Deed Poll and the obligations of the Responsible Entity under this Deed Poll are subject to the Scheme becoming Effective.

### **2.2. TERMINATION**

This Deed Poll and the obligations of the Responsible Entity under this Deed Poll will



automatically terminate and this Deed Poll will be of no force or effect if:

- (a) the Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the End Date or any later date as the Court, with the consent of ALF and the Responsible Entity, may order.

### **2.3. CONSEQUENCES OF TERMINATION**

If this Deed Poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) the Responsible Entity is released from its obligations to further perform this Deed Poll except those obligations which by their nature survive termination; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against the Responsible Entity in respect of any breach of this Deed Poll which occurred before it was terminated.

## **3. PERFORMANCE OF OBLIGATIONS GENERALLY**

The Responsible Entity must comply with its obligations under the Implementation Deed and do all acts and things reasonably necessary or desirable on its part to give full effect to the Scheme.

## **4. SCHEME OBLIGATIONS**

Subject to clause 2, the Responsible Entity undertakes in favour of each Scheme Participant to:

- (a) procure withdrawal requests in respect of Ineligible Units are processed within the timeframes required by the Implementation Deed; and
- (b) undertake all other actions attributed to it under the Scheme and the Implementation Deed,

subject to and in accordance with the provisions of the Scheme and the Implementation Deed (as applicable).

## **5. WARRANTIES**

The Responsible Entity represents and warrants that:

- (a) it is a corporation validly existing under the law of its place of registration;
- (b) the Fund has been duly constituted and registered by ASIC and the Responsible Entity is the sole trustee and responsible entity of the Fund;
- (c) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
- (d) it has taken all necessary corporate action to authorise its entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and carry out the transactions contemplated by this Deed Poll;
- (e) this Deed Poll is valid and binding on it and enforceable against it in accordance with the terms of this Deed Poll;

- (f) this Deed Poll does not conflict with, or result in the breach of or default under, any provision of the Fund Constitution and to the best of the Responsible Entity's knowledge any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound; and
- (g) it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

## **6. LIABILITY OF THE RESPONSIBLE ENTITY**

- (a) The Responsible Entity enters into this Deed Poll in its capacity as trustee of the Fund and in no other capacity.
- (b) The liability of the Responsible Entity to the Scheme Participants or any other person under or arising out of this Deed Poll in relation to the Fund is limited to the amount that the Responsible Entity actually receives in the exercise of its right of indemnity against the Fund.
- (c) Scheme Participants may enforce their rights under this Deed Poll against the Responsible Entity only to the extent of the Responsible Entity's right of indemnity out of the assets of the Fund.
- (d) If the Scheme Participants do not recover all money owing to each of them by enforcing the rights referred to in clause 8(c), they may not seek to recover the shortfall by:
  - (i) bringing proceedings against the Responsible Entity in its personal capacity; or
  - (ii) applying to have the Responsible Entity wound up or proving in the winding up of the Responsible Entity unless another creditor has initiated proceedings to wind up the Responsible Entity.
- (e) The limitation in this clause 6 does not apply to the extent that any liability arises from fraud, gross negligence or breach of trust by the Responsible Entity as the trustee of the Fund. For these purposes, the Responsible Entity cannot be regarded as having acted fraudulently, with gross negligence or in breach of trust to the extent to which the fraud, gross negligence or breach of trust has been caused or contributed to by a failure of an Scheme Participant to fulfil its obligations in respect of the Scheme or any other act or omission of the Scheme Participant or any other person.
- (f) Nothing in clause 8(f) shall make the Responsible Entity liable to any claim for an amount greater than the amount which the Responsible Entity would have been able to claim and recover from the assets of the Fund in relation to the relevant liability if the Responsible Entity's right of indemnification out of the assets of the Fund had not been prejudiced by the Responsible Entity's failure to properly perform its duties.
- (g) The Responsible Entity is not obliged to do or refrain from doing anything under this Deed Poll (including incur any liability) unless the Responsible Entity's liability is limited in the same manner as set out in paragraph (a) to (g) of this clause.
- (h) This clause applies despite any other provision in this Deed Poll and extends to all liabilities and obligations of the Responsible Entity in any way connected with any representations, warranty, conduct, omission, agreement or transaction related to this Deed Poll. In the event of any inconsistency, this clause prevails and survives termination.

## **7. CONTINUING OBLIGATIONS**

This Deed Poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) the Responsible Entity has fully performed its obligations under this Deed Poll; or
- (b) the earlier termination of this Deed Poll under clause 2.2.

## **8. NOTICES**

### **8.1. Form of notice**

Any communication to the Responsible Entity under or in connection with this Deed Poll:

- (a) must be in writing;
- (b) must be addressed as shown below:

Address: Level 2, 575 Bourke Street Melbourne Victoria 3000

Fax no: +61 3 8623 5200

Email: HKalman@eqt.com.au

Attention: Harvey H Kalman, Head of Corporate Fiduciary & Financial Services
- (c) must be signed by the party making the communication or by a person duly authorised by that party;
- (d) must be delivered by hand or posted by prepaid post to the address, or sent by fax to the number, of the Responsible Entity, in accordance with clause 11.4(b), or given in any other way permitted by law; and
- (e) is regarded as received by the Responsible Entity:
  - (i) if sent by prepaid post, on the third Business Day after the date of posting (if posted to an address in the same country), and on the fifth Business Day after the date of posting (if posted to an address in a different country); and
  - (ii) if sent by fax, at the local time (in the place of receipt of that fax) which then equates to the time at which that fax is sent as shown on the transmission report which is produced by the machine from which that fax is sent and which confirms transmission of that fax in its entirety, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day; and
  - (iii) if delivered by hand, on delivery at the address of the addressee as provided in clause 11.4(b), unless delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day.

## **9. GENERAL**

### **9.1. GOVERNING LAW AND JURISDICTION**

- (a) This Deed Poll is governed by the laws in force in the State of New South Wales.

- (b) The Responsible Entity irrevocably submits to the non-exclusive jurisdiction of the courts of the State of New South Wales and courts competent to hear appeals from those courts.

## **9.2. WAIVER**

- (a) The Responsible Entity may not rely on the words or conduct of any Scheme Participant as a waiver of any right unless the waiver is in writing and signed by the Scheme Participant granting the waiver.
- (b) No Scheme Participant may rely on words or conduct of the Responsible Entity as a waiver of any right unless the waiver is in writing and signed by the Responsible Entity.
- (c) The meanings of the terms used in this clause 9.2 are set out below:

**conduct** includes delay in the exercising of a right;

**right** means any right arising under or in connection with this Deed Poll and includes the right to rely on this clause; and

**waiver** includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

## **9.3. VARIATION**

A provision of this Deed Poll may not be varied unless:

- (a) if before the Second Court Date, the variation is agreed to by ALF or the Responsible Entity; or
- (b) if on or after the Second Court Date, the variation is agreed to by ALF or the Responsible Entity and is approved by the Court,

in which event the Responsible Entity will enter into a further Deed Poll in favour of the Scheme Participants giving effect to the variation.

## **9.4. CUMULATIVE RIGHTS**

The rights created by this Deed Poll are personal to the Responsible Entity and each Scheme Participant under this Deed Poll and cumulative with, and do not exclude, any other rights, powers or remedies provided by law independently of this Deed Poll.

## **9.5. ASSIGNMENT**

- (a) The rights created by this Deed Poll are personal to the Responsible Entity and each Scheme Participant and must not be dealt with at law or equity without the prior written consent of the Responsible Entity.
- (b) Any purported dealing in contravention of clause 9.5(a) is invalid.

## **9.6. FURTHER ACTION**

The Responsible Entity must do all things and execute all further documents necessary or expedient to give full effect to the Scheme and the transactions contemplated by it.

**Executed** by the Parties as a Deed:

**EXECUTED** by **Australian Leaders Fund** )  
**Limited** (ACN 106 845 970) in )  
accordance with section 127 of the )  
Corporations Act: )

  
\_\_\_\_\_  
Director/Secretary

**JOHN ABERNETHY**

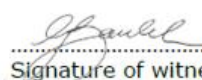
\_\_\_\_\_  
Name (please print)

  
\_\_\_\_\_  
Director


**JULIAN GOSSE**

\_\_\_\_\_  
Name (please print)

**EXECUTED** by **Equity Trustees Limited** )  
(ACN 004 031 298) as trustee of )  
**Watermark Absolute Return Fund** )  
(ARSN 631 094 534) by its attorneys under )  
Power of Attorney dated 27 May 2016 in the )  
presence of: )

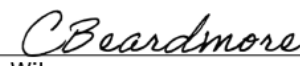
  
\_\_\_\_\_  
Signature of witness

**Giselle Baulch**  
\_\_\_\_\_  
(Print name)

  
\_\_\_\_\_  
Signature of Attorney  
**Russell Beasley**  
Authorised Person - Schedule II  
Equity Trustees Limited  
.....ACN.004.031.298.....  
Name of Attorney & Schedule Number

  
\_\_\_\_\_  
Signature of Attorney  
**Grace Peterson**  
Authorised Person - Schedule III  
Equity Trustees Limited  
.....ACN.004.031.298.....  
Name of Attorney & Schedule Number

**EXECUTED** by )  
**Watermark Funds Management Pty** )  
**Limited** )  
(ACN 106 302 505) in accordance with )  
section 127 of the Corporations Act: )

  
\_\_\_\_\_  
Witness

**CHERISH BEARDMORE**

\_\_\_\_\_  
Name (please print)

  
\_\_\_\_\_  
Director

**JUSTIN BRAITLING**

\_\_\_\_\_  
Name (please print)

## ANNEXURE C– SCHEME OF ARRANGEMENT



### SCHEME OF ARRANGEMENT

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**Australian Leaders Fund Limited**  
(ACN 106 845 970)

#### **Scheme Participants**



Suite 18, 50 Stanley Street  
Darlinghurst NSW 2010  
Phone +61 2 9059 8111  
info@montlawyers.com  
montlawyers.com

MONT LAWYERS PTY LTD  
ABN 71 631 930 937  
ACN 631 930 937

Liability limited by a scheme approved  
under Professional Standards Legislation.

## **PARTIES:**

- A **Australian Leaders Fund Limited** (ACN 106 845 970) of Level 23, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000 (**ALF**); and
- B **The Scheme Participants.**

## **1. DEFINITIONS AND INTERPRETATION**

### **1.1. DEFINITIONS**

In this Scheme:

**ALF Assets** mean Assets of ALF with an aggregate value equal to the Completion Net Assets.

**ALF Management Agreement** means the investment management agreement dated 11 November 2003 between Australian Leaders Fund Limited (formerly known as Wilson Leaders Limited) and the Manager (formerly known as KWB Capital Pty Limited).

**ALF Registry** means Boardroom Pty Limited of Level 12, 225 George Street, Sydney NSW 2000.

**ALF Share** means a fully paid ordinary share in the capital of ALF.

**Assets** means any legal or equitable right, estate or interest (whether present or future and whether vested or contingent) in real or personal property and any description, wherever located and whether tangible or intangible, including:

- (a) any part of the business or undertaking of a body corporate;
- (b) a chose or other thing in action, including any rights under any contract, negotiable instrument or other arrangement;
- (c) any share in a company and any unit or other interest in a trust;
- (d) any 'property' (within the meaning in subsection 413(4) of the Corporations Act); and
- (e) any other thing capable of being transferred or otherwise dealt with by order of the Court in accordance with paragraph 413(1)(a) of the Corporations Act.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

**Australian Accounting Standards** means the accounting standards promulgated by the Australian Accounting Standards Board.

**Business Day** means a weekday on which trading banks are open for business in Sydney, Australia, excluding any Saturday, Sunday or public holiday.

**Capital Reduction** means the reduction in the capital of ALF under section 256B of the Corporations Act to be applied equally against each Scheme Share on issue as at the Scheme Record Date in accordance with the terms of the Capital Reduction Resolution.

**Capital Reduction Amount** means an amount equal to the Completion Net Assets.

**Capital Reduction Entitlement** means in relation to a Scheme Participant, the Capital Reduction Pro-Rata Amount multiplied by the number of Scheme Shares held by the Scheme Participant on the Scheme Record Date.

**Capital Reduction Pro-Rata Amount** means the Capital Reduction Amount divided by the number of Scheme Shares on issue on the Scheme Record Date.

**Capital Reduction Resolution** means the ordinary resolution concerning the Capital Reduction to be considered by ALF Shareholders at the General Meeting as set out in Annexure A of this Scheme.

**CHESS** means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited.

**Completion Net Assets** means an amount equal to the post-tax net Assets of ALF as at the Implementation Date after completion of the transaction referred to in clause 4.2(a) immediately prior to the transactions referred to in clauses 4.2(b) to 4.2(f) (inclusive) calculated in accordance with the Corporations Act, Australian Accounting Standards (including the Australian Accounting Interpretations), and the Corporations Regulations and excluding the Retention Amount and franking deficit tax attributable to the Dividend Amount (if any).

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Corporation Regulations** means the *Corporations Regulations 2001* (Cth).

**Court** means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act as ALF, the Responsible Entity and the Manager agree on in writing.

**Deed Poll** means the deed poll to be granted by the Responsible Entity in substantially the form set out in Schedule 3 to the Implementation Deed or such other form agreed to in writing between ALF and the Responsible Entity.

**Delivery Time** means at 8.00am on the Second Court Date.

**Dividend** means a dividend determined in accordance with section 254T of the Corporations Act by the Directors and paid to each Scheme Participant, subject to the Scheme becoming Effective, in cash on the Implementation Date.

**Dividend Amount** means the amount of the Dividend which is determined by the Directors such that ALF is not in a franking deficient position as at 30 June 2021 or such earlier on which ALF is wound up.

**Dividend Entitlement** means in relation to a Scheme Participant, the Dividend Pro Rata Amount multiplied by the number of ALF Shares held by the Scheme Participant on the Scheme Record Date.

**Dividend Pro Rata Amount** means the amount of less than 3 cents per ALF Share equal to the Dividend Amount divided by the number of ALF Shares on issue on the Scheme Record Date.

**Early Termination Fee** means an amount of \$2,500,000 payable by ALF to the Manager for the early termination of the ALF Management Agreement.

**Effective** means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) and section 413(1) in relation to the Scheme.



**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means 30 June 2021.

**Fund** means Watermark Absolute Return Fund (ARSN 631 094 534).

**Fund PDS** means the current product disclosure statement issued by the Responsible Entity with respect to the Fund and the Units.

**General Meeting** means the general meeting for ALF Shareholders held on [\*] at which ALF Shareholders considered (amongst other things) the Capital Reduction Resolution and the Termination Fee Resolution.

**Government Agency** means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state.

**Implementation Date** means the day 5 Business Days after the Scheme Record Date or such other date as ALF and the Responsible Entity agree in writing.

**Implementation Deed** means the scheme implementation deed dated 21 December 2020 between ALF, the Responsible Entity and the Manager relating to the implementation of this Scheme.

**Ineligible Foreign Shareholder** means a Scheme Participant whose address as shown in the Share Register is a place outside Australia and its external territories or New Zealand unless ALF, the Responsible Entity and the Manager agree in writing that it is lawful and not unduly onerous or impracticable to transfer that Scheme Participant Units when this Scheme becomes Effective.

**Ineligible Units** means the Units to which Ineligible Foreign Shareholders would have been entitled under this Scheme but for the operation of clause 4.4.

**Listing Rules** means the official listing rules of the ASX.

**Manager** means Watermark Funds Management Pty Limited (ACN 106 302 505).

**Nominee** means the agent appointed by ALF to receive, and to withdraw, the Ineligible Units.

**Registered Address** means, in relation to an ALF Shareholder, the address of the ALF Shareholder as recorded in the Share Register.

**Regulatory Authority** means:

- (f) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;
- (ii) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or
- (iii) any regulatory organisation established under statute,

in any part of the world, and whether foreign, federal, state, territorial or local.

**Responsible Entity** means the responsible entity of the Fund from time to time being, as at the date of this Scheme, Equity Trustees Limited (ACN 004 031 298) as responsible entity of

the Fund.

**Retention Amount** means \$100,000 or such lesser amount agreement between the Manager and ALF.

**Scheme** means this scheme of arrangement under Part 5.1 of the Corporations Act between ALF and the Scheme Participants subject to any alterations or conditions:

- (g) agreed to in writing by ALF and the Responsible Entity and approved by the Court; or
- (h) made or required by the Court under section 411(6) of the Corporations Act and agreed by ALF and the Responsible Entity.

**Scheme Consideration** means one Unit for each Scheme Share, distributed in specie in satisfaction of each Scheme Participant's Capital Reduction Entitlement in accordance with clauses 4.4 and 5.1.

**Scheme Meeting** means the meeting of ALF Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.

**Scheme Record Date** means the record date for the Scheme and the Dividend, being the third Business Day after the Effective Date or such other date as ALF, the Responsible Entity and the Manager agree.

**Scheme Share** means an ALF Share on issue as at the Scheme Record Date.

**Scheme Participant** means each person who is registered in the Share Register as the holder of ALF Shares as at the Scheme Record Date.

**Second Court Date** means the first day on which the application made to the Court for an order for the purposes of section 411(4)(b) and section 413(1)) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application or appeal is heard.

**Share Register** means the register of members of ALF maintained in accordance with the Corporations Act.

**Termination Fee Resolution** means the ordinary resolution concerning payment of the Early Termination Fee under chapter 2E of the Corporations Act as set out in Annexure A of this Scheme to be considered by ALF Shareholders at the General Meeting.

**Unit** means a fully paid B class unit in the capital of the Fund issued pursuant to the Fund PDS and subject to the fee arrangements detailed in the investment management agreement between the Manager and the Responsible Entity dated 7 March 2019 as amended by the parties from time to time, including via side letter signed on or around 17 December 2020.

**Withdrawal Period** means the period on and from the Implementation Date to and including the fifth Business Day after the Implementation Date.

## **1.2. INTERPRETATION**

In this Scheme, headings and bold type are for convenience only and do not affect interpretation and, unless the context requires otherwise:

- (a) words importing the singular include the plural and vice versa;
- (b) words importing a gender include any gender;

- (c) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;
- (d) a reference to a person includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture, a partnership, a trust and any Government Agency;
- (e) a reference to a Clause, Party, Attachment or Schedule is a reference to a clause of, and a party, attachment and schedule to this Scheme, and a reference to this Scheme includes any Attachment and Schedule;
- (f) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another Government Agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- (g) a reference to any document (including this Scheme) is to that document as varied, novated, ratified or replaced from time to time;
- (h) the word **includes** in any form is not a word of limitation;
- (i) a reference to **\$** or **dollar** is to Australian currency;
- (j) a reference to any time, unless otherwise indicated, is a reference to the time in Sydney, Australia;
- (k) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme; and
- (l) a reference to the Listing Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a Party.

### **1.3. BUSINESS DAY**

Where the day on or day by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

## **2. PRELIMINARY MATTERS**

- (a) ALF is a public company limited by shares incorporated in Australia and registered in New South Wales, Australia, and has been admitted to the official list of the ASX. ALF Shares are quoted for trading on the ASX.
- (b) As at the Second Court Date, **[insert]** ALF Shares were on issue.
- (c) The Responsible Entity is a public company acting as responsible entity of the Fund, a registered managed investment scheme under the Corporations Act.
- (d) If this Scheme becomes Effective:
  - (i) prior to the Implementation Date:
    - (A) ALF will pay the Early Termination Fee and all other amounts required under the Termination Deed to the Manager;

- (B) determine to pay the Dividend Amount on the Implementation Date to each Scheme Participant;
- (ii) on the Implementation Date:
  - (A) in consideration of the transfer of the ALF Assets by ALF to the Fund, the Responsible Entity, will issue to ALF the number of Units equal to 1 Unit for every Scheme Share on issue on the Record Date, which have an aggregate value equal to the Completion Net Assets;
  - (B) ALF will undertake the Capital Reduction and distribute in specie the Scheme Consideration in accordance with this Scheme and in satisfaction of each Scheme Participant's Capital Reduction Entitlement; and
  - (C) the ALF Shares will be cancelled by ALF in accordance with the terms of the Capital Reduction Resolution and this Scheme.
- (e) ALF, the Manager and the Responsible Entity have agreed by executing the Implementation Deed to implement the Scheme and conduct the Capital Reduction.
- (f) This Scheme attributes actions to the Responsible Entity but does not itself impose an obligation on it to perform those actions. The Responsible Entity has agreed, by executing the Deed Poll, to perform the actions attributed to it in respect of this Scheme and set out in the Scheme Implementation Deed, including issuing ALF with Units with an aggregate value equal to the Completion Net Assets and procuring the Unit register is updated to reflect the provision of the Scheme Consideration to the Scheme Participants, subject to and in accordance with this Scheme.

### **3. CONDITIONS**

#### **3.1. CONDITIONS PRECEDENT**

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) all the conditions precedent in clause 3.1 of the Implementation Deed (other than the condition precedent in clause 3.1(c) of the Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Implementation Deed by the Delivery Time;
- (b) neither the Implementation Deed nor the Deed Poll having been terminated in accordance with their terms before the Delivery Time;
- (c) approval of this Scheme by the Court under sections 411(4)(b) and section 413(1) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act and agreed to by ALF and the Responsible Entity;
- (d) Scheme Participants' approval of the Capital Reduction Resolution and the Early Termination Fee Resolution by the required majority under the Corporations Act at the General Meeting;
- (e) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to this Scheme and agreed to by ALF and the Responsible Entity; and

- (f) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) and section 413(1)) of the Corporations Act approving this Scheme coming into effect, pursuant to section 411(10) and section 413(3) of the Corporations Act, on or before the End Date (or any later date ALF and the Responsible Entity agree).

### **3.2. CERTIFICATE**

- (a) ALF and the Responsible Entity will provide to the Court on the Second Court Date a certificate executed as a deed, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.
- (b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

## **4. IMPLEMENTATION OF THIS SCHEME**

### **4.1. LODGEMENT OF COURT ORDERS WITH ASIC**

ALF will lodge with ASIC, in accordance with sections 411(10) and 413(3) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as ALF, the Manager and the Responsible Entity agree in writing.

### **4.2. PAYMENT OF THE DIVIDEND AND IMPLEMENTATION OF THE CAPITAL REDUCTION AND THE SCHEME**

On the Implementation Date, without the need for any further act by any Scheme Participant:

- (a) ALF will pay the Dividend Entitlement of each Scheme Participant by dispatching to the cash amount to each Scheme Participant's nominated bank account as noted in, or by mailing a cheque to the address as shown in, the Share Register at the Scheme Record Date;
- (b) the ALF Assets will be transferred to the Fund;
- (c) the Responsible Entity will issue to ALF (as consideration for the ALF Assets) Units with an aggregate value equal to the Completion Net Assets;
- (d) ALF will reduce its share capital by the Capital Reduction Amount, crediting each Scheme Participant with a Capital Reduction Entitlement, in accordance with the Capital Reduction Resolution;
- (e) ALF will in satisfaction of the Capital Reduction Entitlement of each Scheme Participant distribute the Scheme Consideration in accordance with clause 4.4 and clause 5.1; and
- (f) subject to the completion of the steps set out in clauses 4.2(a) to 4.2(e), ALF will then immediately issue one fully paid ordinary share to the Manager.

### **4.3. IMPLEMENTATION OF STEPS 4.2(a) TO 4.2(e) TO BE SIMULTANEOUS**

Implementation of all of the steps set out in clauses 4.2(a) to 4.2(e) shall be carried out simultaneously and no step in clauses 4.2(a) to 4.2(e) shall be deemed to have been completed until all steps have been carried out.

#### **4.4. CAPITAL REDUCTION ENTITLEMENTS OF SCHEME PARTICIPANTS**

Subject to clause 5.2, the Capital Reduction Entitlement of each Scheme Participant will, on the Implementation Date, be satisfied via the in specie distribution of the Scheme Consideration (without the need for any further act by a Scheme Participant) as follows:

- (a) for each Ineligible Foreign Shareholder, by ALF transferring to the Nominee that number of Units equal to the number of Scheme Shares held by each Ineligible Foreign Shareholder on the Scheme Record Date; and
- (b) for all other Scheme Participants, by ALF transferring to that Scheme Participant that number of Units equal to the number of Scheme Shares held by that Scheme Participant on the Scheme Record Date.

#### **4.5. IN SPECIE DISTRIBUTION OF UNITS**

The obligations of ALF under clause 4.4 will be discharged by ALF:

- (a) transferring the Units to the Scheme Participants or the Nominee (as applicable) in the numbers determined in accordance with clause 4.4; and
- (b) procuring the entry in the Fund's unit register:
  - (i) of the name of each Scheme Participant in respect of the Units transferred to the relevant Scheme Participant by ALF in accordance with this Scheme; or
  - (ii) of the name of the Nominee in respect of those Units that would otherwise have been transferred to each Scheme Participant who is an Ineligible Foreign Shareholder.

#### **4.6. DISPATCH OF HOLDING STATEMENTS**

As soon as practicable after the Implementation Date, ALF will procure that the Responsible Entity (on behalf of the Fund) sends to each Scheme Participant or the Nominee, holding statements for the Units transferred in accordance with clause 4.5, by prepaid post to their registered address at the Scheme Record Date, or as otherwise directed by the relevant Scheme Participants or the Nominee (as applicable).

#### **4.7. JOINT HOLDERS**

In the case of Scheme Shares held in joint names:

- (a) any Units must be transferred to and registered in the name of the joint holders and the holding statement in respect of the requisite number of Units must be sent to the holder whose name appears first in the Share Register as at the Scheme Record Date; and
- (b) any bank cheque required to be paid by or on behalf of ALF or the Responsible Entity must be payable to the joint holders and be forwarded to the holder whose name appears first in the Share Register as at the Scheme Record Date.

#### **4.8. APPOINTMENT AS AGENT**

Each Ineligible Foreign Shareholder appoints ALF as its agent to receive on its behalf any financial services guide or other notices which may be given by the Nominee to the Ineligible Foreign Shareholder.

## **5. WITHDRAWAL OF INELIGIBLE UNITS**

### **5.1. THE WITHDRAWAL PROCEDURE**

ALF will procure, that the Nominee:

- (a) as soon as reasonably practicable (and in any event no later than the end of the Withdrawal Period), request the withdrawal for the benefit of each Ineligible Foreign Shareholder, all the Ineligible Units, transferred to the Nominee under clause 4.4 in consideration for the application of their Capital Reduction Entitlements, in accordance with the procedure specified in the Fund PDS by delivering to the Responsible Entity's unit registry (to its address as specified in the Fund PDS) a request form in respect of the Ineligible Units and the certificates (if any) in respect of the Ineligible Units;
- (b) promptly after the withdrawal of the Ineligible Units in accordance with clause 5.1(a), accounts to each Ineligible Foreign Shareholder for the net proceeds of the withdrawal (for the avoidance of doubt, after deduction or payment of all withdrawal fees and other charges payable on withdrawal at the direction of ALF and any applicable taxes and charges incurred by the Nominee in connection with the withdrawal) and any income attributable to those Units (on an averaged basis so that all Ineligible Foreign Shareholders receive the same price per Unit (provided that for the purposes of the foregoing the total cash amount payable an Ineligible Foreign Shareholder, will be rounded down to the nearest whole cent); and
- (c) remits the net proceeds of the withdrawal due to each Ineligible Foreign Shareholder under clause 5.1(b) to the Ineligible Foreign Shareholder no later than 5 Business Days after the end of the Withdrawal Period, such amounts to be dispatched by:
  - (i) direct credit to each Ineligible Foreign Shareholder's nominated bank account as noted in the Share Register at the Scheme Record Date; or
  - (ii) where a bank account has not been nominated by an Ineligible Foreign Shareholder for the purpose of clause 5.1(c)(i), cheque to be mailed to that Ineligible Foreign Shareholder's address as show in the Share Register at the Scheme Record Date.

### **5.2. SATISFACTION OF OBLIGATIONS**

- (a) ALF, by complying with the terms of clause 5.1 in respect of an Ineligible Foreign Shareholder will be taken to have satisfied and discharged its obligations to the relevant Ineligible Foreign Shareholder under the terms of the Capital Reduction Resolution and the Scheme.
- (b) If any amount is required under any Australian law or by any Regulatory Authority in Australia to be:
  - (i) withheld from an amount payable under clause 5.1(c) and paid to that entity or authority; or
  - (ii) retained by the Nominee, ALF or the Responsible Entity out of an amount payable under clause 5.1,

its payment or retention by the Nominee or ALF will constitute the full discharge of the payment obligations under this clause with respect to the amount so paid or retained until, in the case of clause 5.2(b)(ii), it is no longer required to be retained.

- (c) An Ineligible Foreign Shareholder will have no claim against ALF for any entitlement they would have had to the Units but for the terms of this Scheme.

### **5.3. ACKNOWLEDGEMENT**

Under this Scheme, each Ineligible Foreign Shareholder agrees and acknowledges that:

- (a) the withdrawal in respect of the person's Capital Reduction Entitlement under this Scheme by operation of clause 5.1 constitutes satisfaction of all the person's entitlements in and to that person's Capital Reduction Entitlement;
- (b) no assurance is given as to the withdrawal price of the Ineligible Units; and
- (c) the withdrawal of the Ineligible Units in accordance with this Scheme will be at that Ineligible Foreign Shareholder's risk.

## **6. GENERAL SCHEME PROVISIONS**

### **6.1. AGREEMENT TO BECOME A MEMBER OF THE FUND**

Under this Scheme, each Scheme Participant (including those Scheme Participants who do not attend the Scheme Meeting or General Meeting, do not vote at that meeting or vote against the Scheme) who will receive units:

- (a) agrees to become a Unitholder in the Fund, to have their name entered into the Fund's register of Unitholders, accepts the Units transferred to them and agrees to be bound by the Fund's constitution; and
- (b) agrees and acknowledges that the distribution of Units in accordance with clause 4.5 constitutes satisfaction of all that person's entitlements in and to that person's Capital Reduction Entitlement.

### **6.2. APPOINTMENT OF AGENT AND ATTORNEY**

- (a) Each Scheme Participant, without the need for any further act, irrevocably appoints ALF as its agent and attorney for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Scheme, including without limitation:
  - (i) the execution and delivery of any form or documentation required to effect the distribution of the Units to Scheme Participants, the Nominee or any other person in accordance with the terms of the Scheme, and the delivery of any such form to the Responsible Entity;
  - (ii) executing any document or doing any other act necessary to give effect to the terms of this Scheme, including, without limitation, the communication of the Scheme Participant's consent, agreement, notifications under clauses 6.1, 6.3, 6.4 or 6.5; and
  - (iii) the enforcement of the Deed Poll against the Responsible Entity,and ALF accepts such appointment.
- (b) Where any provision of this Scheme is expressed to create a right, obligation or benefit by a Scheme Participant in favour of any person or entity that is not a party (**Person**) to the Scheme, then:



- (i) any such right, obligation or benefit may be assured, or further and better assured, in favour of any such Person by deed (between the relevant Scheme Participant and Person) or by deed poll in favour of any such Person; and
- (ii) on and from the Effective Date, ALF is by this Scheme expressly appointed by each Scheme Participant as each Scheme Participant's true and lawful agent and attorney with full power and authority to execute as their act and as a deed and deliver on behalf of the Scheme Participant a deed assuring or, further and better assuring, any such right, obligation or benefit.

The authority given by this clause is irrevocable and as if it were made under seal and by a deed and may be exercised more than once and from time to time.

- (c) ALF, as agent of each Scheme Participant, may sub-delegate its functions under clause 6.2(a) to all or any of its directors and secretaries (jointly and severally).

### **6.3. INSTRUCTIONS TO ALF**

Except for a Scheme Participant's tax file number, binding instructions or notifications between a Scheme Participant and ALF relating to Scheme Shares or an ALF Shareholder's status as a Scheme Participant (including without limitation, any instructions in relation to payment of dividends or communications from ALF) will (to the extent permitted by law), from the Scheme Record Date, be deemed by reason of this Scheme to be similarly binding instructions or notifications to, and accepted by, the Responsible Entity (on behalf of the Fund) in respect of the Units distributed to Scheme Participants as Scheme Consideration by ALF, until those instructions or notifications are, in each case, revoked or amended in writing addressed to the Responsible Entity at the Fund's unit registry.

### **6.4. SCHEME PARTICIPANTS' CONSENT**

Each Scheme Participant irrevocably consents to ALF doing all things necessary incidental or expedient to the implementation and performance of the Scheme and acknowledges that the Scheme binds ALF and all of the Scheme Participants from time to time (including those who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme).

### **6.5. AMENDMENTS TO THE SCHEME**

ALF may, by its counsel and with the consent of the Responsible Entity, consent, on behalf of all persons concerned (including a Scheme Participant), to any alterations or conditions to this Scheme as the Court thinks just to impose.

### **6.6. FURTHER STEPS**

ALF will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Scheme and will, on behalf of Scheme Participants, procure the Responsible Entity on behalf of the Fund to execute all documents and do all acts and things necessary or desirable for the implementation and performance of the steps attributed to the Fund or the Responsible Entity under this Scheme or with respect to the Capital Reduction.

### **6.7. SCHEME BINDING**

To the extent of any inconsistency between this Scheme and the ALF constitution, this Scheme overrides the ALF constitution and binds ALF and all Scheme Participants.

## **6.8. ENFORCEMENT OF DEED POLL**

ALF undertakes in favour of each Scheme Participant that it will enforce the Deed Poll against the Responsible Entity on behalf of the Fund on behalf of and as agent and attorney for Scheme Participants.

## **7. DEALING IN ALF SHARES**

### **7.1. DETERMINATION OF SCHEME PARTICIPANTS**

To establish the identity of the Scheme Participants, dealings in ALF Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant ALF Share on or before the Scheme Record Date; and
- (b) in all other cases, registerable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Scheme Record Date at the place where the Share Register is kept,

and ALF will not accept for registration, nor recognise for any purpose any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate, except a transfer to the Responsible Entity pursuant to this Scheme and any subsequent transfer by the Responsible Entity.

### **7.2. REGISTER**

- (a) ALF must register registerable transmission applications or transfers of the ALF Shares in accordance with clause 7.1(b) on or before the Scheme Record Date provided that, for the avoidance of doubt, nothing in this clause 7.2(a) requires ALF to register a transfer that would result in a ALF Shareholder holding a parcel of ALF Shares that is less than a 'marketable parcel' (for the purposes of this clause 7.2(a) 'marketable parcel' has the meaning given in the ASX Settlement Operating Rules).
- (b) If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport to agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and ALF shall be entitled to disregard any such disposal.
- (c) For the purpose of determining entitlements to the Scheme Consideration, ALF must maintain the Share Register in accordance with the provision of this clause 7.2 until the Scheme Consideration has been paid to the Scheme Participants.
- (d) The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (e) Subject to the provision of the Scheme Consideration and the transfer of the ALF Assets to the Responsible Entity contemplated in clause 4.2, all statements of holding for ALF Shares will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from the Scheme Record Date, each entry current as at the Scheme Record Date on the Share Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the ALF Share relating to that entry.

- (f) As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, ALF will ensure that a copy of the Share Register as at the Scheme Record Date, including details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant as shown in the Share Register, is available to the Responsible Entity in the form the Responsible Entity reasonably requires.

## **8. GENERAL**

### **8.1. SCHEME PARTICIPANTS' AGREEMENT**

Each Scheme Participant agrees and acknowledges that this Scheme binds ALF and all Scheme Participants (including those who do not attend the Scheme Meeting or the General Meeting or those who do not vote, or vote against this Scheme at the Scheme Meeting).

### **8.2. NOTICES**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to ALF, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at ALF's registered office or at the office of the ALF Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or of the General Meeting or the non-receipt of such notice by an ALF Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the General Meeting or the proceedings of the Scheme Meeting or General Meeting.

### **8.3. GOVERNING LAW AND JURISDICTION**

- (a) This Scheme is governed by the laws in force in the State of New South Wales.
- (b) Each Party irrevocably submits to the non-exclusive jurisdiction of the courts of the State of New South Wales and courts competent to hear appeals from those courts.

### **8.4. FURTHER ACTION**

ALF must do all things and execute all further documents necessary or expedient to give full effect to this Scheme and the transactions contemplated by it.

### **8.5. NO LIABILITY WHEN ACTING IN GOOD FAITH**

Neither ALF or the Responsible Entity nor any director, officer or secretary of ALF or the Responsible Entity will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

## **ANNEXURE A**

### **Capital Reduction Resolution**

*"That, subject to and conditional on the Scheme becoming Effective and for the purposes of section 256C(1) of the Corporations Act, approval be given for:*

- (a) the share capital of ALF, as at the Scheme Record Date, be reduced to zero on the Implementation Date in consideration for the rights obtained under the Scheme and that the Scheme Shares be cancelled; and*
- (b) ALF's obligations under paragraph (a) are to be satisfied by the in specie distribution of Units (as defined in the Scheme) in accordance with the provisions of the Scheme in satisfaction of the amount to be distributed to each holder of ALF Shares thereunder."*

### **Early Termination Fee Resolution**

*"Subject to, and interdependent with the approval of the Scheme by the Court under section 411(4)(b) of the Corporations Act and the Implementation Date occurring before the End Date, that for the purposes of section 208 of the Corporations Act, and for all other purposes, ALF Shareholders approve:*

- (a) ALF's agreement to pay the Early Termination Fee to the Manager in recognition that the Responsible Entity will provide a one year waiver of management fees for the Units on the implementation of the Scheme; and*
- (b) ALF entering into arrangements to give effect to, and to pay the Early Termination Fee to the Manager."*

## ANNEXURE D – NOTICE OF SCHEME MEETING

**AUSTRALIAN LEADERS FUND LIMITED**  
**(ACN 106 845 970)**

### **Notice of Court ordered Meeting of Australian Leaders Fund Limited Shareholders**

Notice is given that, by an Order of the Federal Court of Australia (**Court**) made on 2 February 2021 under section 411(1) of the Corporations Act, the Court has directed that a meeting of the holders of fully paid ordinary shares of ALF be held virtually (online only) at 11.00am (Sydney time) on 8 March 2021.

The Court has also directed that John Abernethy or, if he is unable or unwilling to participate in the virtual (online only) meeting, Julian Gosse, act as Chairman of the meeting.

#### **1. PURPOSE OF THE MEETING**

The purpose of the meeting is to consider and, if thought fit, to agree (with or without any alterations or conditions agreed to in writing between ALF and the Responsible Entity or any alterations or conditions required by the Court to which ALF and the Responsible Entity agree) to a scheme of arrangement proposed to be made between ALF and the holders of its ordinary shares (**Scheme**).

A copy of the Scheme and a copy of the Scheme Explanatory Statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Explanatory Booklet of which this notice forms part.

#### **2. RESOLUTION**

*"That, pursuant to and in accordance with section 411 of the Corporations Act, the members agree to the scheme of arrangement proposed between Australian Leaders Fund Limited and the holders of its fully paid ordinary shares, as contained in and more particularly described in the scheme booklet of which the notice convening this meeting forms part (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) and, subject to approval of the Scheme by the Court and the passing of the Early Termination Fee Resolution and the Capital Reduction Resolution, the Board of Directors of ALF is authorised to implement the Scheme with any such alterations or conditions."*

**By order of the Court**



Mark Licciardo  
Company Secretary  
2 February 2021

#### **EXPLANATORY NOTES FOR THE SCHEME MEETING**

##### **1. GENERAL**

- 1.1 Capitalised words and phrases contained in this Notice of Meeting (including the proposed resolution) have the same meaning as set out in the Glossary in Section 13 of the Explanatory Booklet, of which this notice forms part.

- 1.2 This notice should be read in conjunction with the entire Explanatory Booklet of which this notice forms part. The Explanatory Booklet contains important information to assist you in determining how to vote on the proposed Scheme Resolution. The Explanatory Booklet includes a copy of the Scheme (refer Annexure B) and a copy of the Scheme Explanatory Statement required by section 412 of the Corporations Act in relation to the Scheme (the Scheme Explanatory Statement being all Sections of this Scheme Explanatory Booklet, other than this Annexure D).

## **2. VOTING ENTITLEMENTS**

For the purposes of the Scheme Meeting, only those persons registered in the Share Register as a holder of ALF Shares at 7.00pm (Sydney time) on 6 March 2021 are entitled to participate and vote at the virtual (online only) Scheme Meeting in respect of each ALF Share held by them at that time, either personally, by proxy or attorney or, in the case of an ALF Shareholder or proxy who is a corporation, by corporate representative.

## **3. REQUIRED VOTING MAJORITY**

- 3.1 The resolution to approve the Scheme is subject to approval by the majorities required under section 411(4)(a)(ii) of the Corporations Act.
- 3.2 The resolution to approve the Scheme must be approved by:
- (a) unless the Court orders otherwise, a majority in number (more than 50%) of holders of ALF Shareholders present and voting at the Scheme Meeting (whether personally, by proxy, attorney or, in the case of an ALF Shareholder or a proxy who is a corporation, by corporate representative); and
  - (b) at least 75% of the total number of votes which are cast at the Scheme Meeting by ALF Shareholders (personally or by proxy, attorney, or in the case of an ALF Shareholder or a proxy who is a corporation, corporate representative).
- 3.3 The vote at the Scheme Meeting will be conducted by poll.

## **4. COURT APPROVAL**

- 4.1 In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme (with or without any alterations or conditions agreed between ALF and the Responsible Entity or any alterations or conditions required by the Court to which ALF and the Responsible Entity agree) must also be approved by an order of the Court and an office copy of the orders must be lodged with ASIC.
- 4.2 If the Scheme is approved by the requisite majorities of ALF Shareholders at the Scheme Meeting, ALF intends to apply to the Court for orders approving the Scheme.

## **5. HOW TO VOTE**

- 5.1 ALF Shareholders who are entitled to vote at the Scheme Meeting may vote:
- (a) by participating in the virtual (online only) meeting and voting personally, or by appointing an attorney to participate in the virtual meeting and vote on their behalf or, in the case of an ALF Shareholder or proxy who is a corporation, a corporate representative to attend the meeting and vote on its behalf; or
  - (b) by appointing a proxy to participate and vote on their behalf, using the Scheme Meeting Proxy Form accompanying this notice or by appointing a

proxy online.

5.2 A proxy may be an individual or a body corporate.

## **6. JOINTLY HELD ALF SHARES**

If you hold ALF Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the Scheme Meeting, only the vote of the holder whose name appears first on the Share Register will be counted.

## **7. PROXIES**

7.1 A Shareholder entitled to attend and vote at this Scheme is entitled to appoint not more than two proxies to attend and vote in their place. A proxy does not need to be a Shareholder of ALF. If a Shareholder appoints two proxies, the Shareholder may specify the proportion or number of votes each proxy is entitled to exercise. If no proportion or number of votes is specified, each proxy may exercise half of the Shareholder's votes. If the specified proportion or number of votes exceeds that which the Shareholder is entitled to, each proxy may exercise half of the Shareholder's votes. Any fractions of votes brought about by the apportionment of votes to a proxy will be disregarded.

7.2 Proxies can be appointed in one of three ways:

- Online through the Registry's website at <https://www.votingonline.com.au/alfgm2021>;
- By posting or delivering the proxy form by hand to the Registry (addresses below);
- By faxing the proxy form to the Registry (fax number below).

7.3 Proxy Forms must be received by the Registry and all online proxy appointments must be completed no later than 11.00am (Sydney time) on 6 March 2021.

7.4 Registry address details for the return of Proxy Form is provided with this Notice:

**Hand deliveries:** Boardroom Pty Limited  
Level 12  
225 George Street  
Sydney NSW 2000

**Postal address:** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001

**Fax number:** +61 2 9279 0664

## **8. ADVERTISEMENT**

Where this notice of meeting is advertised unaccompanied by the Explanatory Booklet, a copy of the Explanatory Booklet can be obtained by anyone entitled to participate in the Scheme Meeting from ALF's website <http://wfunds.com.au/fund/australian-leaders-fund/>, or by contacting the Registry.

## **Annexure E – NOTICE OF ANNUAL GENERAL MEETING**

### **NOTICE OF ANNUAL GENERAL MEETING**

Notice is given that the Annual General Meeting of Australian Leaders Fund Limited (ACN 106 845 970) (**Company**) will be held on 8 March 2021 at 11.30am or as soon as reasonably practicable after the Scheme Meeting has concluded or been adjourned (whichever time is later).

#### **Consideration of financial statements and reports**

To receive the financial statements, Directors' Report and Auditor's Report of the Company for the financial year ended 30 June 2020.

There is no requirement for Shareholders to approve these reports.

#### **Resolution 1: Adoption of the Remuneration Report**

To consider and, if thought fit, to pass the following resolution:

*"That the Remuneration Report of the Company for the financial year ended 30 June 2020 be adopted."*

##### **Voting Exclusion Statement – Resolution 1**

The Company will disregard any votes cast on Resolution 1 by or on behalf of a member of the Key Management Personnel of the Company's consolidated group (at the date of the Meeting or whose remuneration is included in the Remuneration Report) and any of their Closely Related Parties, unless the vote is cast by:

- a person as proxy for a person entitled to vote in accordance with a direction on the Proxy Form; or
- the Chairman of the Meeting as proxy for a person entitled to vote in accordance with a direction on the Proxy Form to vote as the proxy sees fit and exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

#### **Resolution 2: Re-election of Mr Geoff Wilson AO as a director**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"That Mr Geoff Wilson AO, who retires by rotation in accordance with rule 6.7 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company."*

#### **Resolution 3 – Capital Reduction Resolution**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"That, subject to and conditional on the Scheme becoming Effective and for the purposes of section 256C(1) of the Corporations Act, approval be given for:*

- (a) *the share capital of ALF, as at the Record Date, be reduced to zero on the Implementation Date in consideration for the rights obtained under the Scheme and that the Scheme Shares be cancelled; and*
- (b) *ALF's obligations under paragraph (a) are to be satisfied by the in specie distribution of Units (as defined in the Scheme) in accordance with the provisions of the Scheme in satisfaction of the amount to be distributed to each holder of ALF Shares thereunder."*



#### **Resolution 4: Early Termination Fee Resolution**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to, and interdependent with the approval of the Scheme by the Court under section 411(4)(b) of the Corporations Act and the Implementation Date occurring before the End Date, that for the purposes of section 208 of the Corporations Act, and for all other purposes, ALF Shareholders approve:*

- (a) ALF's agreement to pay the Early Termination Fee to the Manager in recognition that the Responsible Entity will provide a one year waiver of management fees for the New Units on the implementation of the Scheme; and*
- (b) ALF entering into arrangements to give effect to, and to pay the Early Termination Fee to the Manager."*

#### **Voting Exclusion Statement – Resolution 4**

In accordance with section 224 of the Corporations Act, no votes may be cast (in any capacity) on the Early Termination Fee Resolution by or on behalf of Watermark Funds Management Pty Limited, Mr Justin Braitling nor Mr Geoff Wilson AO or any of their respective associates.

However, the above does not prevent the casting of a vote if:

- it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the Early Termination Fee Resolution; and
- it is not cast on behalf of Watermark Funds Management Pty Limited, Mr Justin Braitling nor Mr Geoff Wilson AO or any of their respective associates.

#### **(Contingent) Resolution 5: Election of Mr Malcolm McComas as a director**

If, and only if the resolutions required for the Scheme to become Effective are not approved by members, consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"That Mr Malcolm McComas, being eligible and offers himself for election, be elected as a director of the Company."*

#### **(Contingent) Resolution 6: Election of Mr Rob Ferguson as a director**

If, and only if the resolutions required for the Scheme to become Effective are not approved by members, consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"That Mr Rob Ferguson, being eligible and offers himself for election, be elected as a director of the Company."*

#### **EXPLANATORY NOTES FOR THE ANNUAL GENERAL MEETING**

### **1. GENERAL**

- 1.1 Capitalised words and phrases contained in this Notice of Meeting (including the proposed resolutions) have the same meaning as set out in the Glossary in Section 13 of the Explanatory Booklet, of which this notice forms part.
- 1.2 This notice should be read in conjunction with the entire Explanatory Booklet of which this notice forms part. The Explanatory Booklet contains important information to assist you in determining how to vote on the proposed resolutions, noting that the Capital Reduction Resolution and the Early Termination Fee Resolution are intrinsically tied to the implementation of the Scheme.
- 1.3 The Booklet includes information regarding the Capital Reduction and the Early Termination Fee (see Section 3.6).
- 1.4 The Booklet includes information relevant to the re-election of Mr Geoff Wilson AO of a copy of the Scheme Explanatory Statement required by Chapter 2E of the

Corporations Act in relation to the Early Termination Fee Resolution (the Scheme Explanatory Statement being all Sections of this Booklet, other than this Annexure E). The Explanatory Booklet includes a copy of the Scheme (refer Annexure B).

## **2. VOTING ENTITLEMENTS**

For the purposes of the AGM, only those persons registered in the Share Register as a holder of ALF Shares at 7.00pm (Sydney time) on 6 March 2021 are entitled to participate and vote at the virtual (online only) AGM in respect of each ALF Share held by them at that time, either personally, by proxy or attorney or, in the case of an ALF Shareholder or proxy who is a corporation, by corporate representative.

## **3. REQUIRED VOTING MAJORITY**

3.1 Each resolution to be considered at the AGM must be approved by at least 50% of the total number of votes which are cast at the AGM by ALF Shareholders (personally or by proxy, attorney, or in the case of an ALF Shareholder or a proxy who is a corporation, corporate representative).

3.2 The vote at the AGM will be conducted by poll.

## **4. HOW TO VOTE**

4.1 ALF Shareholders who are entitled to vote at the AGM may vote:

- (b) by participating in the virtual (online only) meeting and voting personally, or by appointing an attorney to participate in the virtual meeting and vote on their behalf or, in the case of an ALF Shareholder or proxy who is a corporation, a corporate representative to attend the meeting and vote on its behalf; or
- (c) by appointing a proxy to participate and vote on their behalf, using the AGM Proxy Form accompanying this notice or by appointing a proxy online.

4.2 A proxy may be an individual or a body corporate.

## **5. JOINTLY HELD ALF SHARES**

If you hold ALF Shares jointly with one or more other persons, only one of you may vote. If more than one of you attempts to vote in person at the AGM, only the vote of the holder whose name appears first on the Share Register will be counted.

## **6. PROXIES**

6.1 A Shareholder entitled to attend and vote at this Scheme is entitled to appoint not more than two proxies to attend and vote in their place. A proxy does not need to be a Shareholder of the Company. If a Shareholder appoints two proxies, the Shareholder may specify the proportion or number of votes each proxy is entitled to exercise. If no proportion or number of votes is specified, each proxy may exercise half of the Shareholder's votes. If the specified proportion or number of votes exceeds that which the Shareholder is entitled to, each proxy may exercise half of the Shareholder's votes. Any fractions of votes brought about by the apportionment of votes to a proxy will be disregarded.

6.2 Proxies can be appointed in one of three ways:

- Online through the Registry's website at

[www.votingonline.com.au/alfagm2020](http://www.votingonline.com.au/alfagm2020);

- By posting or delivering the proxy form by hand to the Registry (addresses below);
- By faxing the proxy form to the Registry (fax number below).

6.3 Proxy Forms must be received by the Registry and all online proxy appointments must be completed no later than 11.00am (Sydney time) on 6 March 2021.

6.4 Registry address details for the return of Proxy Form is provided with this Notice:

**Hand deliveries:** Boardroom Pty Limited  
Level 12  
225 George Street  
Sydney NSW 2000

**Postal address:** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001

**Fax number:** +61 2 9279 0664

## 7. ADVERTISEMENT

Where this notice of meeting is advertised unaccompanied by the Booklet, a copy of the Explanatory Booklet can be obtained by anyone entitled to participate in the AGM from ALF's website <https://wffunds.com.au/fund/australian-leaders-fund/>, or by contacting ALF's or the Registry.

## 8. OPTIONAL QUESTION FOR THE CHAIRMAN OR AUDITOR

We aim to provide Shareholders an opportunity to ask questions about ALF and its external auditor at the AGM or the separate Shareholder investment presentation. If you would like to ask a question, then please email [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au).

By order of the Board



Mark Licciardo  
Company Secretary

## **ANNEXURE F – PRODUCT DISCLOSURE STATEMENT**

# Watermark Absolute Return Fund - B Class

## Product Disclosure Statement

ARSN 631 094 534  
APIR ETL5025AU  
Issue Date XX 2021

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#### Investment Manager

Watermark Funds Management  
ACN 106 302 505 AFSL No 250897  
Ph. +61 2 9252 0225  
Web: [www.wfunds.com.au](http://www.wfunds.com.au)

#### Administrator

Link Fund Solutions  
Unitholder Services  
PO Box 5482  
Sydney NSW 2001  
Phone: +612 9547 4311  
Fax: +612 9221 1194

#### Responsible Entity

Equity Trustees Limited  
ABN 46 004 031 298 AFSL No 240975  
GPO Box 2307 Melbourne VIC 3001  
Phone: +613 8623 5000  
Web: [www.eqt.com.au](http://www.eqt.com.au)

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#### Unit Registry

Boardroom Pty Limited  
ABN 14 003 209 836  
Grosvenor Place  
Level 12, 225 George Street  
Sydney NSW 2000  
Phone: 1300 046 609 (In Australia)  
+61 2 9290 9611 (International)  
Fax: +61 2 9279 0664

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

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

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

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

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

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

Responsible Entity on the terms and conditions described in this PDS. You should read this PDS in its entirety.

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

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

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

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

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

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

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

## New Zealand investors warning statement

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

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

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

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

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

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

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

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

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

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

# 1. Fund at a glance

|  | Summary   | For further information |
|--|---|-------------------------|
| Name of the Fund   | Watermark Absolute Return Fund  | Section 5               |
| ARSN   | 631 094 534   | Section 5               |
| APIR   | ETL5025AU   | Section 5               |
| Investment objective   | The Fund aims to deliver positive absolute returns in excess of the benchmark, with a focus on capital preservation.  | Section 5               |
| Investment strategy and investments held                     | The Fund is an actively managed long/short equity strategy, focused on companies listed on the Australian Securities Exchange (ASX).  | Section 5               |
| Benchmark  | RBA cash rate   |                         |
| The type(s) of investors for whom the Fund would be suitable | Investors who are looking for capital growth and income while hedging equity market risk.<br>The risk level of the Fund would be considered high.   | Section 5               |
| Recommended investment timeframe                             | At least 5 to 7 years.<br>The minimum suggested investment timeframe for the Fund is 5 years. We recommend that you consider, with your financial adviser, the suggested investment period for the Fund in relation to your own financial circumstances.<br>You should review this regularly to ensure that the Fund continues to meet your investment needs. |                         |
| Minimum initial investment                                   | Not Applicable  | Section 7               |
| Minimum additional investment                                | Not Applicable  | Section 7               |
| Minimum withdrawal amount                                    | Nil   | Section 7               |
| Cut off time for applications                                | Not Applicable  | Section 7               |
| Cut off time for withdrawals                                 | 2:00pm (Australian Eastern Standard Time) on the 10th Business Day of each month for that month's unit price.   | Section 7               |
| Valuation of the Fund's assets                               | The Fund's assets are normally determined monthly.  | Section 7               |
| Applications   | Not Applicable  | Section 7               |
| Withdrawals  | Accepted monthly. Withdrawal requests are generally processed and paid within 21 Business Days of acceptance of a withdrawal request although a longer period of time is permitted under the Constitution.  | Section 7               |
| Income distribution  | Determined semi-annually at the end of June and at the end of December and normally paid to investors within 14 days of the period end.<br>You may elect to have your distribution reinvested or directly credited to an account in your name held at a branch of an Australian domiciled bank  | Section 7               |
| Management fees and costs                                    | 1.30% p.a. of the NAV of the Class. An amount of 1% p.a. of the management fees component of management fees and costs is not payable for a period of 12 months following the first issuance of units in the Fund.  | Section 9               |
| Withdrawal fee   | The lesser of 2% of NAV per unit; or 2 cents per unit in the Class redeemed, payable for a period of 12 months following the first issuance of units in the Class.  |                         |
| Entry fee/ exit fee  | None  | Section 9               |
| Performance fee  | 20.5% p.a. (including GST net of RITC) of the increase in NAV of the Class which exceeds the benchmark, subject to a high-watermark.  | Section 9               |



## 2. ASIC Benchmarks

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

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

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

### 3. Disclosure Principles

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

|                      | Summary   | Section (for further information) |
|----------------------|---|-----------------------------------|
| <i>Leverage</i>      | <p>The Fund does not intend to borrow funds for investment. Rather, leverage is created as the proceeds from short selling borrowed securities are reinvested in the Long portfolio. Leverage in the form of short selling is used to hedge the market risk of the Long portfolio.</p> <p>The Fund's expected level of leverage is measured by the sum of the gross exposure levels of its Long and Short portfolios. At its maximum level (which Watermark has never reached in respect of any of the companies or funds it manages), for every \$1 of investors' capital, the Fund may invest \$2 in Long positions and \$2 in Short positions. Historically, Watermark has maintained an average gross exposure in respect of any of the companies or funds it manages of between 150-300%.</p>  | Section 5.6                       |
| <i>Derivatives</i>   | <p>Although they are not expected to comprise a material part of the Fund's investment strategy, the Fund may use exchange traded Derivatives and over-the-counter Derivatives which may be volatile and speculative. Derivatives may be used to hedge physical positions, gain market exposure to underlying securities or for other portfolio management purposes.</p> <p>The types of Derivatives that may be used from time to time and the allocation ranges for both Derivatives and the Fund's other asset classes are set out in Section 5.2.</p> <p>All of the Fund's Derivatives counterparties must have, in Watermark's reasonable opinion, sufficient expertise and experience in trading such financial instruments.</p>  | Section 5.8                       |
| <i>Short selling</i> | <p>Short selling is undertaken by the Fund as part of the investment strategy, to generate positive absolute returns and to hedge market risks. The Fund engages in Short selling by borrowing securities from the Prime Broker and selling those securities on the market, in the expectation that their price will fall. By re-purchasing the securities at a lower price and returning them to the Prime Broker, the Fund generates a profit.</p> <p>Shorts are also a hedge for the Fund's Long positions whereby, if there is a major set-back, for the share market, losses on Long positions are offset by gains on Short positions.</p> <p>Short sales can involve greater risk than buying a security. The risks associated with short selling and the ways in which Watermark will seek to mitigate those risks are set out in Section 5.7.</p> | Section 5.7                       |
| <i>Withdrawals</i>   | <p>Monthly.</p> <p>Withdrawal requests must be received by 2pm on the 10<sup>th</sup> Business Day in order to receive the month's unit price.</p> <p>See Section 7 for more information on making a withdrawal.</p>  | Section 7                         |

## 4. Who is Managing the Fund?

### The Responsible Entity

#### Equity Trustees Limited

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

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

### The Investment Manager

#### Watermark Funds Management Pty Ltd

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

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

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

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

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

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

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

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

#### *Justin Braitling - CIO*

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

#### *Daniel Broeren - Sector Head*

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

#### *Harry Dudley - Sector Head*

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

### The Administrator

#### Link Fund Solutions Pty Limited

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

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

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

### The Prime Brokers and Custodians

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

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

## 5. How the Fund Invests

### 5.1 Investment objective

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

### 5.2 Investment strategy

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

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

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

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

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

#### Investment Philosophy

Watermark believes successful investing requires the following skills:

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

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

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

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

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

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

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

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

#### Investment Process

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

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

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

##### *Qualitative review*

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

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

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

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

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

## Portfolio Construction

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

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

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

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

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

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

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

## Risk management

### Risk philosophy

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

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

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

### Risk factors

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

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

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

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



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

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

#### **Risk monitoring**

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

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

#### **Leverage and Short Positions**

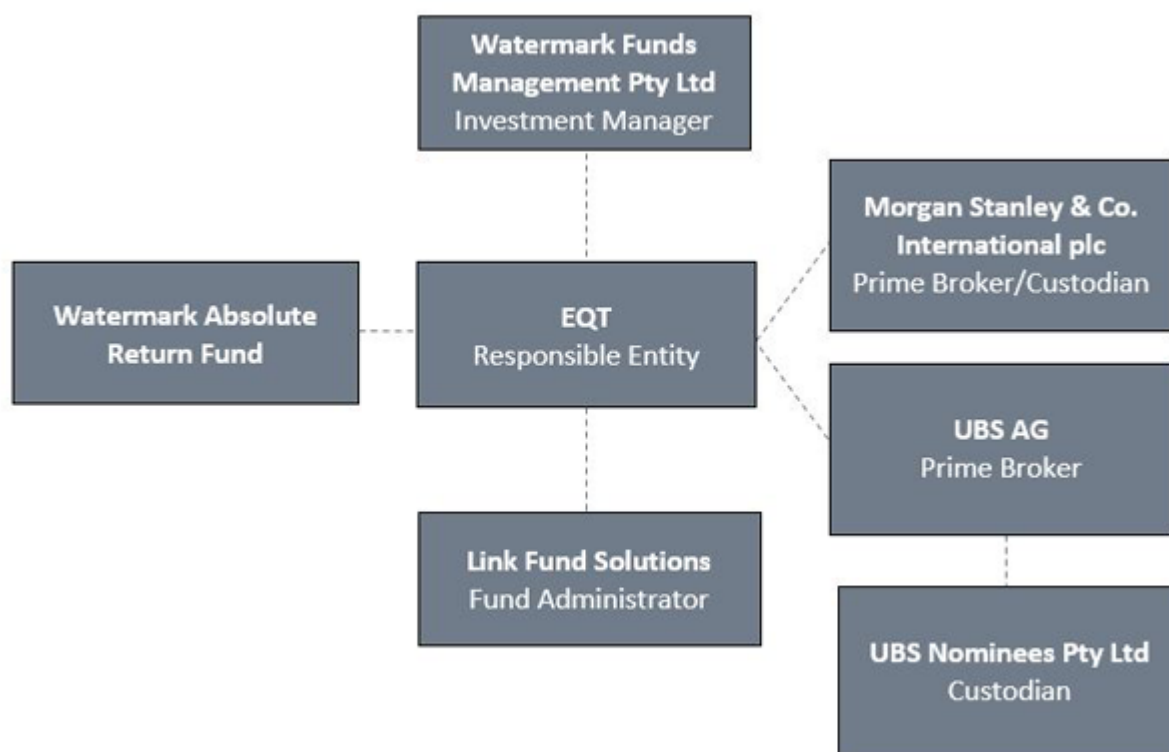
Leverage in the form of Short selling will be used to minimise market risk in the Portfolio. Watermark does not intend to borrow funds for investment.

### **5.3 Fund Structure**

#### **Investment structure**

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

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



#### **Service providers**

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

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

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

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

#### **Counterparty risk**

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

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

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

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

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

## 5.4 Valuation, location and custody of assets

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

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

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

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

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

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

## 5.5 Liquidity

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

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

## 5.6 Leverage

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

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

As an example of how leverage works in the Fund:

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

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

## 5.7 Short selling

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



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

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

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

## 5.8 Derivatives

### Purpose and rationale

Although they are not expected to comprise a material part of the Fund's investment strategy, the Fund may use exchange traded Derivatives and over-the-counter Derivatives which may be volatile and speculative. Derivatives may be used to hedge physical positions, gain market exposure to underlying securities or for other portfolio management purposes.

### Types of Derivatives

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

## Criteria for engaging counterparties

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

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

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

## 5.10 Withdrawals

Withdrawal requests are generally processed within 5 Business Days of receipt. Please see section 7 for further details on applications and withdrawals.

## 5.11 Fund performance

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

## 6. Managing Risk

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

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

### Equity funds general risk

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

### Investment Strategy Risk

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

### Short-Selling Risk

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

### Leverage Risk

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

### Investment Manager Risk

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

### Market risk

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

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

### Counterparty Risk

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

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

### Liquidity risk

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

### Small cap stock risk

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

### Portfolio turnover risk

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

### Derivatives Risk

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

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

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

## 7. Issuance and Withdrawing

### Issuance of units

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

### Making a withdrawal

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

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

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

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

Unit prices are calculated monthly.

The cut-off time for withdrawals is 2:00pm on the 10th Business Day of each month for that month's unit price.

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

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

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

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

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

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

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

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

### Access to funds

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

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

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

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

### Terms and conditions for withdrawals

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

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

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

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

- We are not responsible or liable if you do not receive, or are late in receiving, any withdrawal money that is paid according to your instructions.
- We may contact you to check your details before processing your withdrawal request. This may cause a delay in finalising payment of your withdrawal money. No interest is payable for any delay in finalising payment of your withdrawal money.
- If we cannot satisfactorily identify you as the withdrawing investor, we may refuse or reject your withdrawal request or payment of your withdrawal proceeds will be delayed. We are not responsible for any loss you consequently suffer.
- As an investor who is withdrawing, you agree that any payment made according to instructions received by post or

courier or fax, shall be a complete satisfaction of our obligations, despite any fact or circumstances such as the payment being made without your knowledge or authority.

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

## Distributions

The Fund usually distributes income semi-annually at the end of June and at the end of December. Distributions are calculated on the last day of each period end (30 June and 31 December), and are normally paid to investors within 14 Business Days of the period end although the distribution at 30 June may take longer. Equity Trustees may amend the distribution frequency without notice. Your share of any distributable income is calculated in accordance with the Constitution and is generally based on the number of units held by you at the end of the distribution period and the distributable income.

If you have not provided your KYC Documents, your distribution will be withheld and your reinvestment election will be removed. Once you provide your KYC Documents, any distributions accrued over the period will be paid out to your nominated bank account and you can re-elect to reinvest your distributions. Indirect investors should review their IDPS Guide for information on how and when they receive any income distribution.

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

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

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

There is available from the Responsible Entity, on request and free of charge, a copy of the most recent annual report (if any) of the Fund, the most recent financial statements (if any) of the Fund, the auditor's report on those financial statements or, if those financial statements are not audited or reviewed by an

auditor, a statement to that effect, the PDS and the Constitution for the Fund (including any amendments). Other than the Constitution, these documents may be obtained electronically from [www.eqt.com.au/insto](http://www.eqt.com.au/insto).

## Valuation of the Fund

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

## Joint account operation

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

## Appointment of authorised nominee to operate account

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

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

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

If you do appoint an authorised signatory:

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

## Electronic instructions

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

- that Equity Trustees receives by an electronic communication bearing your investor code; and

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

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

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



## 8. Keeping Track of Your Investment

### Enquiries

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

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

### Complaints resolution

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

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

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

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

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

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

### Reports

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

These reports comprise:

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

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

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

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

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

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

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

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

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

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

## 9. Fees and Other Costs

### DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your investment balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

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

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

### TO FIND OUT MORE

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

### Fees and other costs

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

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

### Fees and Costs Summary

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



## Watermark Absolute Return Fund - B Class

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

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

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

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

## Additional Explanation of Fees and Costs

### Management fees and costs

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

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

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

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

### Performance fees

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

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

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

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

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

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

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

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

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

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

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

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

### Performance fee example

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

Assume the following:

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

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

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

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

### Transaction costs

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

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

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

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

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

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

However, actual transaction costs for future years may differ.

### Withdrawal fee

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

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

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

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

## Can the fees change?

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

## Payments to IDPS Operators

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

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

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

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

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

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

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

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

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

## Differential fees

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

## Taxation

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

## 10. Taxation

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

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

### Australian Taxation Treatment of the Fund

#### General

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

#### Attribution Managed Investment Trusts

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

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

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

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

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

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

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

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

#### Non-AMIT Provisions

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

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

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

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

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

#### Public trading trust rules

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

#### Losses

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

### Australian Taxation of Australian Resident investors

#### Distributions – AMIT

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



## Distributions – Non-AMIT

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

## Franking Credits and Franked Dividends

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

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

## Foreign Income

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

## Capital Gains

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

## Non-assessable Distribution payments - AMIT

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

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

## Non-assessable Distribution payments – Non-AMIT

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

## Disposal of units by Australian Resident investors

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

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

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

## GST

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

## Duty

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

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

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

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

## New Zealand investors

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

# 11. Other Important Information

## Consents

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

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

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

## Constitution of the Fund

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

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

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

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

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

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

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

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

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

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

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

## Non-listing of units

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

## Termination of the Fund

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

## Our legal relationship with you

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

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

## Compliance Plan

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

## Unit pricing discretions policy

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

## Indemnity

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

## Your privacy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Indirect investors

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

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

## Information on underlying investments

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

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

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

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

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

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

## Common Reporting Standard ("CRS")

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

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

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



## 12. Glossary of Important Terms

### **AFSL Licence**

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

### **Application Form**

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

### **ASIC**

The Australian Securities and Investments Commission.

### **Asset allocation**

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

### **Business Day**

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

### **Buy/Sell Spread**

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

### **Class**

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

### **Constitution**

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

### **Corporations Act**

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

### **Derivatives**

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

### **Distribution**

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

### **Hedge**

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

### **IDPS**

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

### **Liquidity**

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

### **Long Portfolio**

A portfolio of shares which the investor owns.

### **Long positions**

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

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

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

### **Retail Client**

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

### **RITC**

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

### **Short Portfolio**

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

### **Short positions**

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

### **Unit**

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

### **US person**

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

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

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

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

**Wholesale Client**

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

**Wholesale Investor**

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

**Withdrawal Form**

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

## **ANNEXURE G – FUND CONSTITUTION**

# Constitution of the Watermark Absolute Return Fund

Equity Trustees Limited (ACN 004 031 298)

**King & Wood Mallesons**

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Bourke Place  
600 Bourke Street  
Melbourne VIC 3000  
Australia  
T +61 3 9643 4000  
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40127187\_2

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# Constitution of the Watermark Absolute Return Fund Details

|                           |                  |  |
|---------------------------|------------------|--|
| <b>Responsible Entity</b> | <b>Name</b>      | <b>Equity Trustees Limited</b>                       |
|                           | ACN              | 004 031 298  |
|                           | Address          | Level 1, 575 Bourke Street, Melbourne, Victoria 3000 |
|                           | Telephone        | (03) 8623 5000                                       |
|                           | Fax              | (03) 8623 5200                                       |
|                           | Attention        | Harvey Kalman  |
| <b>Governing law</b>      | Victoria         |  |
| <b>Date of deed</b>       | See Signing page |  |

# Constitution of the Watermark Absolute Return Fund

This deed poll is declared by the Responsible Entity to be the constitution of the Watermark Absolute Return Fund.

---

## 1 Interpretation

### 1.1 Definitions

In this constitution these words and phrases have the following meaning unless the contrary intention appears:

**Accept** means:

- (a) in respect of an application for Units, the doing of any act by the Responsible Entity or its agent that constitutes an acceptance of the application or evidence that the application has been accepted, including recording a determination or notifying the applicant that the application is accepted or recording in the Register the issue of Units in response to the application;
- (b) in respect of a request for redemption of Units by a Member, the doing of any act by the Responsible Entity or its agent that constitutes an acceptance of the request or evidence that the request has been accepted, including notifying the Member or recording a determination that the request will be met in whole or in part, recording the redemption of Units in the Register or paying the redemption proceeds to or at the direction of the Member or former Member;

and **Acceptance** and **Accepted** have corresponding meanings.

**AMIT** has the meaning given to that word in the Tax Act.

**AMIT Class Election** means an election made by the Responsible Entity under section 276-20 of the Tax Act.

**AMIT Income Year** means a year of income for the purposes of the Tax Act that the Trust is an AMIT.

**AMIT Regime** means the regime for the taxation of AMITs, as set out in the following legislation:

- (a) Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (Cth);
- (b) Income Tax Rates Amendment (Managed Investment Trusts) Act 2016 (Cth);
- (c) Medicare Levy Amendment (Attribution Managed Investment Trusts) Act 2016 (Cth); and
- (d) Income Tax (Attribution Managed Investment Trusts – Offsets) Act 2016 (Cth).

**AMMA Statement** has the meaning given to that phrase in section 276-460 of the Tax Act.

**Application Price** means the Unit price calculated in accordance with clause 6.

**Applications Account** means an account in which the Responsible Entity or, if permitted, its agent holds money on trust for applicants for Units in accordance with section 1017E of the Corporations Act or otherwise.

**Apportionment Factor** means, for a Class at a Valuation Time, the Apportionment Value for the Class at the Valuation Time divided by the aggregate of the Apportionment Values for all Classes at the Valuation Time.

**Apportionment Value** means, for a Class at a Valuation Time, the Class Net Asset Value for the Class at the immediately preceding Valuation Time adjusted for the Class Inflows and Outflows that have arisen for the Class since the previous Valuation Time.

**ASIC** means the Australian Securities and Investments Commission or any regulatory body which replaces it or performs its functions.

**ASIC Relief** means an exemption or declaration granted by ASIC which gives relief from certain requirements of the Corporations Act.

**Assets** means all the property, rights and Income of the Trust, but not application money or property in respect of which Units have not yet been issued.<sup>1</sup>

**Bonus Unit** means a Unit in respect of the Trust described in clause 4.10(a).

**Bonus Unit Issue Day** means the day determined by the Responsible Entity for the purposes of clause 4.9(b).

**Business Day** means a day other than a Saturday or a Sunday on which banks are open for general banking business in Sydney or if the administrator of the Trust primarily performs its administrative functions in respect of the Trust in a city other than Sydney, the city in which the administrator performs such functions.

**Class** means a class of Units.

**Class Asset** means an Asset which is the subject of a determination by the Responsible Entity in respect of a Class pursuant to clause 10.3(b).

**Class Expenses** means, for a Class, any fees, expenses or other reductions to the Income of the Trust for the period which the Responsible Entity regards as being attributable to the Class Assets or Class Liabilities for the relevant Class.

**Class Income** means, for a Class and a period, any Income (positive) or reductions to Income (negative) of the Trust for the period which the Responsible Entity regards as being attributable to holding or disposing of Class Assets or Class Liabilities for the Class, reduced by any Class Expenses.

**Class Inflows and Outflows** means, for a Class at a Valuation Time, any aggregate net increase or decrease in the Net Asset Value of the Trust that has arisen since the last Valuation Time that the Responsible Entity determines has arisen as a result of:

---

<sup>1</sup> See Clause 7.7 for the time at which Units are issued, and clause 9.12 for the times when Units are redeemed.

- (a) the issue of Units of the Class since the last Valuation Time;
- (b) the redemption of Units of the Class since the last Valuation Time;
- (c) any distributions made by the Trust in respect of Units of the Class since the last Valuation Time;
- (d) any change in the value of a Class Asset of the Class where the Class Asset was a Class Asset of the Class at the immediately preceding Valuation Time;
- (e) any Class Assets of the Class that have arisen for the Class since the immediately preceding Valuation Time, where the Class Asset arose from the Trust holding an Asset that was a Class Asset of the Class; and
- (f) the accrual or payment of any fees, expenses or other amounts which the Responsible Entity regards as being reasonably attributable to the Class, including Class Liabilities.

**Class Liability** means a Liability which is the subject of a determination by the Responsible Entity in respect of a Class pursuant to clause 10.3(a).

**Clearly Defined Rights** means where the rights to income and capital arising from each of the Units in the Trust are "clearly defined" at all times during the relevant Financial Year, for the purposes of section 276-10(1)(b) of the Tax Act.

**Complaint<sup>2</sup>** means an expression of dissatisfaction made to the Responsible Entity, related to its products or services or to the complaints handling process itself, where a response or resolution is explicitly or implicitly expected.

**Compliance Committee Member** means a member of a compliance committee established by the Responsible Entity in connection with the Trust.

**Constituent Documents** has the same meaning as the phrase "constituent documents" in section 276-210(3) of the Tax Act.

**Corporations Act** means the Corporations Act 2001 (Cwlth) and a reference to the Corporations Act or a provision of it includes a reference to the Corporations Act or that provision as modified by any applicable ASIC Relief.

**Custodian** means a person holding or appointed to hold Assets as custodian for the Responsible Entity.

**Cut-off Time** means 2:00 pm on each Business Day or such other time as determined by the Responsible Entity from time to time for the purposes of processing applications and redemption requests.

**Deferred Distribution Amount** means, in respect of an Interim Distribution Period, any Income of the Trust for the Distribution Period which the Responsible Entity determines to defer the distribution of, pursuant to clause 11.2.

**Determined Member Component** has the meaning given to that phrase in section 276-205 of the Tax Act.

**Determined Trust Component** has the meaning given to that phrase in section 276-255 of the Tax Act.

<sup>2</sup> This definition is sourced from ASIC Regulatory Guide 165 paragraph 79, and is based on Australian Standard AS ISO 10002 – 2006.

**Distribution Calculation Date** means:

- (a) the last day of each Financial Year; and
- (b) if there is only one Class on issue at the relevant time, such other days as the Responsible Entity designates from time to time with respect to the Trust; and
- (c) if there is more than one Class on issue at the relevant time, then for each Class, such other days as the Responsible Entity designates from time to time with respect to the Class.

**Distribution Period** means:

- (a) for the first distribution period, the period from the commencement of the Trust to the next Distribution Calculation Date;
- (b) for the last distribution period, the period from the day after the preceding Distribution Calculation Date to the date of distribution on winding up of the Trust; and
- (c) in all other circumstances, the period from the day after the preceding Distribution Calculation Date to the next occurring Distribution Calculation Date;

where any references to Distribution Calculation Date mean the Distribution Calculation Date for a Class where there is more than one Class on issue at the relevant time.

**Eligible Person** means any person:

- (a) other than a U.S. Person; or
- (b) other than a person that the Responsible Entity has determined is not eligible to hold Units from time to time.

**Eligible Person Statement** means a statement in writing, in the form determined by the Responsible Entity from time to time, in relation to whether a person is an Eligible Person.

**Final Distribution Period** means a Distribution Period that ends on a Financial Year Termination Date.

**Financial Year** means:

- (a) for the first financial year, the period from the date the Trust commences to the next Financial Year Termination Date;
- (b) for the last financial year, the period from the day after the preceding Financial Year Termination Date to the date of distribution on winding up of the Trust; and
- (c) in all other circumstances, the period from the day after the preceding Financial Year Termination Date to the next occurring Financial Year Termination Date.

**Financial Year Termination Date** means any of the following as the context requires:

- (a) 30 June; and

- (b) if applicable, the day on which the Trust becomes a “subsidiary member” of a “consolidated group” or “consolidatable group” (as defined in the Tax Act); and
- (c) the day on which the Trust ceases to be a “subsidiary member” of a “consolidated group” or “consolidatable group” (as defined in the Tax Act); and
- (d) for the purposes of determining Income Entitlements in respect of Units of a Class, where the Responsible Entity has made a determination to redeem all Units in that Class, the Distribution Calculation Date determined by the Responsible Entity in respect of those Units.

**Fractional Unit** means a Unit designated upon issue as a Fractional Unit.

**Gross Asset Value** means in relation to the Trust at a Valuation Time, the sum of the value of the Assets.

**GST** means a goods and services tax or similar tax imposed in Australia.

**Income** means an amount determined for a Distribution Period or a Financial Year in accordance with clause 11.1(b).

**Income Component** has the meaning given in clause 9.14(a).

**Income Entitlement** means, in respect of a Member or former Member and a Distribution Period, the amount calculated in respect of the Member or former Member in accordance with clause 11.5.

**Interim Distribution Period** means a Distribution Period that does not end on a Financial Year Termination Date.

**Liabilities** means all present liabilities of the Trust including:

- (a) any provision taken into account in determining the liabilities of the Trust;
- (b) any liability to any Member or former Member in respect of proceeds of redemption of Units which have not been paid; and
- (c) any liability to any Member or former Member in respect of distributions;

but not liabilities:

- (d) to applicants for Units in respect of application money or property in respect of which Units have not yet been issued;<sup>3</sup> or
- (e) to Members, arising by virtue of the right of Members to request redemption of their Units (where the Units have not yet been redeemed) or to participate in the distribution of the Assets on winding up of the Trust.

**Liquid** has the same meaning as in the Corporations Act.<sup>4</sup>

**Management Services Agreement** means an agreement entered into between the Responsible Entity as responsible entity of the Trust and the Manager

<sup>3</sup> See clause 7.7 for the time at which Units are issued.

<sup>4</sup> Refer to the Corporations Act Part 5C.6. In this constitution, section references are to the Corporations Act unless otherwise specified.

relating to management services provided by the Manager for the benefit of the Trust.

**Manager** means Watermark Funds Management Pty Limited (ACN 106 302 505).

**Market Value** of an Asset means:

- (a) in the case of an Asset that is cash or a deposit with an Australian authorised deposit-taking institution, its face value plus any accrued interest;
- (b) in the case of an Asset that is a financial product traded on a financial market, the latest closing price on that market that is readily available to the Responsible Entity, unless:
  - (i) applicable accounting standards require the value to be a different amount (such as the bid price gross of transaction costs) in which case the value is that other amount; or
  - (ii) the Responsible Entity reasonably believes that the closing price or the value under applicable accounting standards does not represent the true value of the Asset, in which case the value will be as determined by a Valuer (which must be reasonably current and determined in accordance with ordinary commercial practice, have regard to the type of assets involved and prevailing market conditions) at the expense of the Trust;
- (c) in the case of an Asset that is an interest in a fund that is not listed or quoted for dealing on any financial market, the redemption price of the interest as last quoted by the manager, trustee or responsible entity of the fund plus any income entitlements accrued at that date as last advised by the manager, trustee or responsible entity;
- (d) in the case of any other Asset, the value of the Asset determined in accordance with relevant accounting standards or, if the Responsible Entity is of the opinion that such valuation does not truly reflect the value of the Asset, such value as last determined by a Valuer (which must be reasonably current and determined in accordance with ordinary commercial practice, have regard to the type of assets involved and prevailing market conditions) at the expense of the Trust.

**Member** means a person Registered as the holder of a Unit that has not been redeemed<sup>5</sup> (including persons jointly Registered) or otherwise stated to be a Member in accordance with clause 7.7 or any other provision of this constitution.

**Member Component** has the meaning given to that phrase in section 276-210 of the Tax Act.

**Member Objection Choice** means a choice made by a Member under the AMIT Regime for the Member's Determined Member Component to be the Member's Member Component, including a choice made by a Member under section 276-205(5) of the Tax Act.

**Net Asset Value** means the value of the Assets calculated in accordance with clause 10 less the Liabilities.

**Net Class Value** means, for a Class at a Valuation Time, the aggregate of:

---

<sup>5</sup> See clause 9.12 for the time at which Units are redeemed.



- (a) the Net Class Value for the Class at the last Valuation Time;
- (b) the Class Inflows and Outflows for the Class since the last Valuation Time; and
- (c) the product of the Portfolio Return for the Trust at the Valuation Time and the Apportionment Factor for the Valuation Time.

**Non-AMIT Income Year** means a Financial Year which is not an AMIT Income Year.

**Non-Class Income** means, for a period, the amount determined by the Responsible Entity as being the Income of the Trust for the period calculated without reference to any amounts that are used in the calculation of Class Income for any Class for the period.

**Over** has the meaning given to that phrase in section 276-345 of the Tax Act.

**Portfolio Return** means, at a Valuation Time, the net increase or decrease in the Net Asset Value of the Trust since the last Valuation Time that the Responsible Entity determines is not attributable to Class Inflows and Outflows.

**Redemption Payment** has the meaning given in clause 9.14(a).

**Redemption Price** means the redemption price of a Unit.

**Relevant Class** has the meaning, for the purposes of clause 11.5, given in clause 11.5.

**Register** means the register of Members kept by or on behalf of the Responsible Entity.

**Registered** means recorded in the Register and **Registration** has a corresponding meaning.

**Resolution and required majority** means:

- (a) a resolution passed at a meeting of Members (or at a meeting of Members holding Units of a Class) in the Trust:
  - (i) on a show of hands, by the required majority of Members (or the Class) present in person or by proxy and voting on the show of hands; or
  - (ii) on a poll, by the required majority of votes cast by Members (or the Class) present in person or by proxy and voting on the poll; or
- (b) unless the law requires otherwise, a resolution in writing signed by Members holding the required majority of the Units in the Trust (or in the Class).

Except where this constitution or any applicable law provides otherwise, the "required majority" is a simple majority of votes validly cast.<sup>6</sup>

<sup>6</sup> Circumstances where a special resolution is required while the Trust is a Registered Scheme include a vote on amendments to this constitution if necessary (see section 601GC(1)(a)). For voting on winding up by Members and choosing a new responsible entity see sections 601FL and 601NB.

**Responsible Entity** means the company which is registered with ASIC as the single responsible entity of the Trust under the Corporations Act.

**Retail Client** has the same meaning that it has in the Corporations Act.<sup>7</sup>

**Tax** means all kinds of taxes, duties, imposts, deductions and charges imposed by a government (including GST), together with interest and penalties.

**Tax Act** means the Income Tax Assessment Act 1936 ("**1936 Act**"), the Income Tax Assessment Act 1997 ("**1997 Act**") or both the 1936 Act and the 1997 Act, as appropriate.

**Taxation Amount** means for a Member or a former Member ("**Relevant Person**"), an amount of Tax which is payable or which is anticipated to become payable by the Responsible Entity on its own account or out of the Trust and which is referable to the Relevant Person. A Taxation Amount includes an amount of Tax imposed on account of or in respect of:

- (a) the Relevant Person;
- (b) an amount paid or payable to the Relevant Person; or
- (c) a Unit held by the Relevant Person.

**Transaction Costs** means a percentage equal to the percentage of the Net Asset Value per Unit that the Responsible Entity considers represents a fair allowance for brokerage, stamp duty and other costs of acquisition (where calculating Application Price) or disposal (where calculating Redemption Price) of investments, and, subject to the Corporations Act, the Responsible Entity may in connection with any particular application or request for redemption of Units deem these costs to be a lesser sum or zero.

**Trust** means the trust which is the subject of this constitution.

**Trust Component** has the meaning given to that phrase in section 276-260 of the Tax Act.

**Under** has the meaning given to that phrase in section 276-345 of the Tax Act.

**Undistributed Deferred Distribution Amount** means, in respect of a Distribution Period, any Deferred Distribution Amounts from a prior Distribution Period in the Financial Year which have not otherwise been distributed or allocated to a Member as an Income Entitlement, including as an Income Component, at the end of the Distribution Period.

**Unit** means a unit in the Trust.

**U.S. Person** means a "U.S. Person" as defined in Rule 902 in Regulation S under the Securities Act of 1933, of the United States of America.

**User Pays Fees** means any cost incurred in relation to:

- (a) an entitlement to a payment or a payment to or from the Trust in respect of a Member; or
  - (b) anything a Member asks the Responsible Entity to do or omit to do,
- which the Responsible Entity considers should be borne by that Member.

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<sup>7</sup> See sections 761A, 761G and 761GA.

**Valuation Time** means a time at which the Responsible Entity calculates the Net Asset Value.

**Valuer** means an independent qualified valuer appointed by the Responsible Entity.

## **1.2 Interpretation**

Unless the contrary intention appears, in this constitution:

- (a) terms defined in the Corporations Act are used with their defined meaning;
- (b) the word “law” includes common law, principles of equity and legislation and a reference to legislation includes regulations as modified by applicable instruments under them and any variation or replacement of any of them;
- (c) the singular includes the plural and vice versa;
- (d) the meaning of general words is not limited by specific examples introduced by “including”, “for example” or “such as” or similar expressions;
- (e) amend includes vary, delete or replace;
- (f) person includes a firm, a body corporate, an unincorporated association and an authority;
- (g) the cover page, contents, headings, footnotes and finding lists are for convenience only and do not affect interpretation;
- (h) a reference to a year (other than a Financial Year), quarter or month means a calendar year, calendar half-year, calendar quarter or calendar month respectively;
- (i) a reference to a monetary amount is a reference to the currency of Australia unless otherwise specified;
- (j) a reference to a document (including this constitution) includes any variation or replacement of it; and
- (k) the word “present” in the context of a person being present at a meeting includes participating using technology approved by the Responsible Entity for the purposes of the meeting.

## **1.3 Other documents**

A document does not become part of this constitution by reason only of that document referring to this constitution or vice versa, or any electronic link between them.

## **1.4 Constitution legally binding<sup>8</sup>**

This constitution binds the Responsible Entity, each present and future Member and any person claiming through any of them in accordance with its terms as if they were a party to this constitution.

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<sup>8</sup> Refer Section 601GB

## **1.5 Corporations Act prevails to the extent of inconsistency**

Despite anything in this constitution, to the extent that a clause of this constitution is inconsistent with the provisions of the Corporations Act applicable to registered managed investment schemes, that provision is of no effect to the extent of the inconsistency, but not otherwise.<sup>9</sup>

## **1.6 Other restrictions and obligations excluded**

To the maximum extent permitted by law, all restrictions on the exercise of the Responsible Entity's powers or obligations which might otherwise be implied or imposed by law are expressly excluded, including any restriction or obligation of the Responsible Entity in its capacity as responsible entity of the Trust arising under any legislation other than the Corporations Act.

## **1.7 Severance**

If all or part of any provision of this constitution is void or invalid or would otherwise result in all or part of this constitution being void or invalid in a jurisdiction for any reason, then it is severed for that jurisdiction. This does not affect the validity or operation of any other provision of this constitution or of that provision in any other jurisdiction.

## **1.8 Governing law**

This constitution is governed by the law in force in the place set out in the Details.

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# **2 Name of Trust**

## **2.1 Name**

The Trust is called the Watermark Absolute Return Fund or any other name as the Responsible Entity determines.<sup>10</sup>

## **2.2 Change of Responsible Entity**

If a Responsible Entity retires or is removed, its successor as Responsible Entity must, unless otherwise approved by the former Responsible Entity, change the name of the Trust to a name that does not imply an association with the former Responsible Entity or its business.

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# **3 Assets held on trust**

## **3.1 Holding of Assets**

The Assets must be held by the Responsible Entity on trust for Members<sup>11</sup>.

## **3.2 Identification**

Any Assets held by the Responsible Entity as responsible entity of the Trust must be clearly identified as property of the Trust and held separately from the assets of the Responsible Entity and any other managed investment scheme if and to

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<sup>9</sup> ASIC RG 134.214

<sup>10</sup> See Corporations Regulation 5C.1.02

<sup>11</sup> See section 601FC(2)

the extent that the Corporations Act so requires.<sup>12</sup> Subject to the law, the Responsible Entity may have Assets held by a custodian.

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## **4 Units**

### **4.1 Nature of Units**

The beneficial interest in the Trust is divided into Units.

### **4.2 Interest in Assets**

- (a) Subject to paragraph (b) and to any rights, obligations or restrictions attaching to any particular Unit which are specified in this constitution, each Unit confers an equal undivided interest in the Assets as a whole, subject to the Liabilities. It does not confer an interest in a particular Asset.
- (b) Where Units are taken to be issued under clause 7.7 and the issue has not yet been recorded in the Register, the person to whom the Units are taken to have been issued has an interest of the kind referred to in paragraph (a) based on the net amount of application money that person has contributed to acquire the Units, divided by the relevant Application Price, whether or not the Application Price has been ascertained at that time.

### **4.3 Units and classes of Units**

The Responsible Entity may issue Units of a single Class or different Classes, with different rights, obligations and restrictions as specified in this constitution. All Units in a Class rank equally. A separate Class does not constitute a separate trust.

### **4.4 Rights attaching to Units**

A Member holds a Unit subject to the rights, restrictions and obligations attaching to that Unit which are specified in this constitution.

### **4.5 Fractions of Units**

Fractions of a Unit (calculated to two decimal places or other number of decimal places as determined by the Responsible Entity) may be issued by the Responsible Entity.

### **4.6 Consolidation and division**

Units may be consolidated or divided as determined by the Responsible Entity.

### **4.7 Treatment of fractions**

The provisions of this constitution relating to Units and Members apply to fractions of Units in the proportion which the fraction bears to one Unit.

### **4.8 No Certificates**

No certificates will be issued in respect of Units in the Trust.

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<sup>12</sup> See section 601FC(1)(i)

#### **4.9 Re-classification**

- (a) Subject to the Corporations Act and clause (b), the Responsible Entity may at the request of, or with the consent of, a Member re-classify Units of one Class held by the Member as Units of another Class.
- (b) If there is more than one Class of Units on issue, the Responsible Entity may only re-classify Units of a Member under clause (a) on a Bonus Unit Issue Day following the issue of Bonus Units (if any).
- (c) Units will be taken to have been re-classified under clause (a) when the re-classification is recorded in the Register.

#### **4.10 Bonus Units**

- (a) The Responsible Entity may determine on a Bonus Unit Issue Day to issue Bonus Units in the Trust:
  - (i) to the Members of a Class; or
  - (ii) where there are more than two Classes, to the Members of each Class,other than to Members of the Class with the lowest Redemption Price.
- (b) The number of Bonus Units of the Class issued in the Trust:
  - (i) must be such that the Application Price for a Unit of the Class is, after the issue of the Bonus Units, equal to the Application Price for a Unit of the Class with the lowest Redemption Price, calculated as if the Transaction Costs are nil; and
  - (ii) to each Member of the Class must be proportionate to the number of Units of the Class held by the Member,calculated to two decimal places or such other number of decimal places as the Responsible Entity determines.
- (c) If the Responsible Entity makes a determination in accordance with clause (a), the Responsible Entity must apply the whole or any part of the capital of the Trust in or towards paying up in full the Bonus Units to be issued to Members under clause (a).

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### **5 Transfer, transmission and joint holders**

#### **5.1 Transfer of Units**

Units may be transferred subject to their terms and this clause 5.

#### **5.2 Form of transfer**

Transfers must be:

- (a) in a form approved by the Responsible Entity;
- (b) accompanied by any evidence the Responsible Entity reasonably requires to show the right of the transferor to make the transfer; and
- (c) if the Responsible Entity requires, be presented for Registration duly stamped.

### 5.3 Responsible Entity may refuse

The Responsible Entity may refuse to record any transfer of Units in the Register without giving any reason for the refusal.

### 5.4 When transfer is effective

A transfer is not effective until Registered.

### 5.5 Joint tenancy

Persons Registered jointly as holders of a Unit hold as joint tenants and not as tenants in common unless the Responsible Entity otherwise agrees.

### 5.6 Death or legal disability of Member

- (a) If a Member dies or becomes subject to a legal disability such as bankruptcy or insanity, only the survivor (where the deceased was a joint holder) or the legal personal representative (in any other case) will be recognised as having any claim to Units Registered in the Member's name.
- (b) A person who becomes entitled to a Unit because of the death, bankruptcy, insanity or other disability of a Member is entitled to receive and may give a discharge for all money payable in respect of the Unit, but, subject to the Corporations Act, is not entitled to receive notices of or to attend or vote at any meetings of Members until that person is registered as the holder of the Unit.

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## 6 Application Price for Units<sup>13</sup>

### 6.1 Application Price formula

- (a) If the Trust has one Class of Units on issue at a Valuation Time, a Unit must only be issued at an application price calculated as:

$$\left[ \frac{\text{Net Asset Value}}{\text{number of Units in issue}} \right] \times (1 + \text{Transaction Costs})$$

or the appropriate proportion of that amount in the case of a Fractional Unit. For example, half of that amount for a 0.50 Fractional Unit.

- (b) If the Trust has more than one Class of Units on issue at a Valuation Time, a Unit of a Class of Units must only be issued at an application price calculated in accordance with the following formula:

$$\left[ \frac{\text{Net Class Value}}{\text{number of Units in issue for the Class}} \right] \times (1 + \text{Transaction Costs})$$

- (c) Notwithstanding clause 6.1(a) and clause 6.1(b), the opening Application Price at a Valuation Time for a new Class of Units which are to be issued immediately after the Valuation Time under valid applications (accompanied by the relevant application money) received before the Cut-off Time immediately preceding the Valuation Time, is the highest

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<sup>13</sup> Required to be included by section 601GA(1)(a)

Application Price for a Unit in a Class of Units on issue at the Valuation Time.

## 6.2 Time for Calculation

- (a) Each of the variables in clause 6.1(a) and clause 6.1(b) (whichever is applicable) must be determined as at the next Valuation Time after:
  - (i) the application for Units has been, or is taken to have been, received and Accepted by the Responsible Entity; or
  - (ii) the Responsible Entity receives the application money (even if paid or to be paid into the Applications Account) or the property against which Units are to be issued is vested in the Responsible Entity,whichever happens later.
- (b) For the purposes of determining the application price for Units to be issued on the reinvestment of Income for a Distribution Period ("**Relevant Distribution Period**"), the Responsible Entity must calculate the Net Asset Value or Net Class Value (as appropriate), and a Valuation Time is taken to have occurred, as at the time immediately after the end of the last day of the Relevant Distribution Period.
- (c) For the purposes of the calculation under clause 6.1, if at the relevant Valuation Time Units have been issued under clause 7.7 but the Application Price of those Units has not yet been ascertained, the application money or property relating to those Units and the Units are to be excluded from the calculation.

## 6.3 Time of receipt

Unless the Responsible Entity determines otherwise, for the purposes of clause 6.2 the time of receipt of an application or money or property is taken to be:

- (a) immediately before the Cut-off Time for the Business Day of receipt, if the application, money or property (as applicable) is received before the Cut-off Time on that Business Day; and
- (b) immediately before the Cut-off Time on the next following Business Day if the application, money or property (as applicable) is received on a day which is not a Business Day or is received on or after the Cut-off Time on a Business Day.

## 6.4 Rounding

The Application Price may be rounded as the Responsible Entity determines but the amount of the rounding must not be more than 1% of the Application Price. Any excess application money or property which results from rounding becomes an Asset.<sup>14</sup>

<sup>14</sup> See notional section 601GAB in ASIC Class Order [CO 05/26].



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## **7 Application procedure**

### **7.1 Application form**

An applicant for Units must complete a form approved by the Responsible Entity if the Responsible Entity so requires. The form may be transmitted electronically if approved by the Responsible Entity.

### **7.2 Payment**

Payment in respect of an application in a form acceptable to the Responsible Entity, or a transfer of property of a kind acceptable to the Responsible Entity and able to be vested in the Responsible Entity or a Custodian appointed by it must:

- (a) accompany the application;
- (b) be received by or made available to the Responsible Entity or the Custodian within such period before or after the Responsible Entity receives the application form as the Responsible Entity determines from time to time or as the terms of issue of the relevant Unit contemplate; or
- (c) comprise a reinvestment of distribution in accordance with clauses 11.14(a) to 11.14(c).

If the Responsible Entity accepts a transfer of property other than cash:

- (d) the value attributed to the property must be based on a valuation which is consistent with the range of ordinary commercial practice for the valuation of assets of that type and is reasonably current, having regard to the type of assets involved and prevailing market conditions and, if the Responsible Entity requires, must be accompanied by such a valuation;<sup>15</sup> and
- (e) any additional costs associated with the valuation or transfer of the property (beyond the amount of the Transaction Costs factor in the Application Price for the Units) must be paid by the applicant either directly or by deducting the costs from the value of the property before the number of Units to be issued is calculated.

### **7.3 Responsible Entity may reject**

The Responsible Entity may reject an application in whole or in part without giving any reason for the rejection.

### **7.4 Eligible Person**

- (a) No application will be Accepted from and no Units will be issued to any person other than an Eligible Person, unless otherwise determined by the Responsible Entity.
- (b) The Responsible Entity may determine that it will not permit a person:
  - (i) to become a Member; or
  - (ii) to acquire or be issued with further Units,

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<sup>15</sup> ASIC RG 134.43

unless the Responsible Entity has received an Eligible Person Statement (or such other document as the Responsible Entity may require) from that person.

## **7.5 Less than whole Units**

Where an application, cancellation or redemption would result in the issue of less than a whole Unit to a Member, the Responsible Entity in its absolute discretion may:

- (a) issue a Fractional Unit;
- (b) contribute its own funds to round up the number of Units issued to a whole number;
- (c) round the Unit up or down; or
- (d) hold the residual amount free of interest and apply it to the next application, cancellation or redemption made by the Member or pay the amount to the Member when moneys are next paid by the Responsible Entity under this constitution.

## **7.6 Minimum amounts**

Subject to the Corporations Act, the Responsible Entity may set a minimum application amount, minimum additional application amount and a minimum holding amount for the Trust and alter or waive those amounts at any time or determine that a different minimum application amount or a different minimum holding will apply for one or more applicants or members (as the case may be).

## **7.7 Issue date**

- (a) Except in the case of a reinvestment of distribution in accordance with this constitution, Units are taken to be issued at the time which is the earlier of:
  - (i) the time the issue of Units is recorded in the Register; and
  - (ii) the time immediately after the Valuation Time applicable to the application for Units has occurred.
- (b) Units which are issued on a reinvestment of distribution in accordance with this constitution are taken to be issued on the first Business Day after the end of the Distribution Period to which the distribution relates.
- (c) At the time when Units are taken to be issued under paragraph (a)(ii) or (b):
  - (i) the applicant becomes a Member in respect of the Units, which are taken to be issued<sup>16</sup> even though the number of Units may not yet have been ascertained and the issue has not yet been entered in the Register; and
  - (ii) the applicant becomes entitled to be recorded in the Register as the holder of those Units as soon as it is reasonably practicable for the Responsible Entity or its agent to make the entry.

<sup>16</sup> For the purposes of section 761E(2)

## 7.8 Uncleared funds

Units issued against application money paid other than in cleared funds, or in consideration of a transfer of property, are void if the funds are not subsequently cleared or the property does not vest in the Responsible Entity within one month of receipt of the application.

## 7.9 Currency

Where it is necessary for the purposes of an application for Units to convert one currency to another, the conversion is to be made at a rate determined by the Responsible Entity.

## 7.10 Defective Applications

Where, within 10 Business Days (or such longer period as the Responsible Entity determines) of the creation and issue of Units in the Trust, the Responsible Entity determines that:

- (a) the applicant was not entitled to hold the Units issued;
- (b) the application was incorrectly executed or executed without power or authority; or
- (c) the application form was defective and was accepted in error,

then the Responsible Entity may in its sole discretion cancel those Units, make an appropriate entry in the Register of the Trust and repay the application money to the applicant out of the Trust. If Units are cancelled under this clause, the Responsible Entity is not required to adjust any Application Price or Redemption Price determined before the cancellation of the Units.

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# 8 Redemption Price of Units<sup>17</sup>

## 8.1 Redemption Price formula

- (a) If the Trust has one Class of Units on issue at a Valuation Time, a Unit must only be redeemed at a redemption price calculated as:

$$\left[ \frac{\text{NetAssetValue}}{\text{numberofUnitsin issue}} \right] \times (1 - \text{Transaction Costs})$$

or the appropriate proportion of that amount in the case of a Fractional Unit. For example, half of that amount for a 0.50 Fractional Unit.

- (b) If the Trust has more than one Class of Units on issue at a Valuation Time, a Unit of a Class of Units must only be redeemed at a redemption price calculated in accordance with the following formula:

$$\left[ \frac{\text{Net Class Value}}{\text{number of Units for the Class in issue}} \right] \times (1 - \text{Transaction Costs})$$

- (c) Notwithstanding clause 8.1(a) and 8.1(b), for the purposes of determining the Redemption Price of Units of a particular Class at the first Valuation Time immediately after the creation and issue of a new

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<sup>17</sup> Required to be included by Section 601GA(4)

Class of Units, the Net Class Value of that new Class of Units at the immediately preceding Valuation Time is the opening Application Price for that Class of Units determined in accordance with clause 6.1(b) (calculated as if the Transaction Cost is nil) multiplied by the number of Units of that Class at that immediately preceding Valuation Time.

## **8.2 Time for Calculation**

- (a) Subject to clause 8.2(b), each of the variables in clause 8.1(a) and clause 8.1(b) (whichever is applicable) must be determined:
  - (i) while the Trust is Liquid, as at the next Valuation Time after the redemption request has been, or is taken to have been, received and Accepted by the Responsible Entity; or
  - (ii) while the Trust is not Liquid, at the last Valuation Time before the redemption offer is made.
- (b) Without limiting the Responsible Entity's discretion to determine a Valuation Time under this constitution, where:
  - (i) a redemption request for 5% or more of the Gross Asset Value of the Trust is received and Accepted on a day; or
  - (ii) the Responsible Entity receives and Accepts a redemption request on a day which in aggregate with all other redemption requests received and Accepted on that day represents 5% or more of the Gross Asset Value of the Trust,

the Responsible Entity may defer the date on which the variables in clause 8.1(a) and clause 8.1(b) are determined in respect of the redemption request (whichever is applicable) to the next Valuation Time following the expiry of five Business Days after the Responsible Entity has received and Accepted the redemption request.

For the purposes of the calculation under clause 8.1, if at the relevant Valuation Time Units have been issued under clause 7.7 but the Application Price of those Units has not yet been ascertained, the application money or property relating to those Units and the Units are to be excluded from the calculation.

## **8.3 Time of receipt**

Unless the Responsible Entity determines otherwise, for the purposes of clause 8.1(c) the day and time of receipt of a redemption request is taken to be:

- (a) immediately before the Cut-off Time for the Business Day of receipt, if the request is received before the Cut-off Time on a Business Day; or
- (b) immediately before the Cut-off Time on the next following Business Day if the request is received on a day which is not a Business Day or is received on or after the Cut-off Time on a Business Day.

## **8.4 Rounding**

The Redemption Price may be rounded as the Responsible Entity determines but the amount of the rounding must not be more than 1% of the Redemption Price. Any excess which results from rounding becomes an Asset of the Trust.<sup>18</sup>

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## **9 Redemption procedures<sup>19</sup>**

### **9.1 Request for redemption**

A Member may make a request for the redemption of some or all of the Units by giving the Responsible Entity notice in writing<sup>20</sup> of the request, specifying the number or value of Units to be redeemed and sufficient details to identify the Member, or in any other manner approved by the Responsible Entity. The Responsible Entity is not obliged to satisfy any such request.

### **9.2 Redemption of request**

A Member may not withdraw a redemption request unless the Responsible Entity agrees.

### **9.3 When Trust is Liquid<sup>21</sup>**

Clauses 9.1, 9.3 and 9.4 apply only while the Trust is Liquid<sup>22</sup>; and also in circumstances where the redemption request was received and Accepted by the Responsible Entity<sup>23</sup> and the Redemption Price in respect of that redemption request was calculated at a time when the Trust was Liquid (even if it is no longer Liquid at the time the Responsible Entity exercises its powers and discretions under those clauses).

### **9.4 Responsible Entity may redeem**

- (a) Subject to the Corporations Act, the Responsible Entity may decide to Accept a request from a Member to redeem some or all of their Units, in whole or in part. The Responsible Entity is not required to Accept any such request. The Responsible Entity may determine to Accept all or part of a request over a number of Business Days (including non-consecutive Business Days) and for the purposes of this constitution the request will be taken to be several requests from the Member that are Accepted over those Business Days and each request will be taken to be in respect of such number of the Member's Units as the Responsible Entity determines.
- (b) If the Responsible Entity determines to Accept a redemption request in respect of a Unit, it must pay from the Assets to the Member or former Member the Redemption Price of that Unit calculated in accordance with clause 8. The payment must be made within 21 days of the date on which the Responsible Entity Accepts the request, or such longer period as allowed by clause 9.5.

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<sup>18</sup> See notional section 601GAC in ASIC Class Order [CO 13/655].

<sup>19</sup> These procedures must be fair to all Members: Section 601GA(4)

<sup>20</sup> See clause 16.

<sup>21</sup> Required to be included by Section 601GA(4)(b) and 601KA(1)

<sup>22</sup> For a definition of a liquid Trust see section 601KA.

<sup>23</sup> See clause 9.12.

## **9.5 Delayed payment**

- (a) Subject to paragraph 9.5(b), the Responsible Entity may at any time suspend consideration of redemption requests, or defer its obligation to pay the Redemption Price in respect of a redemption request it has Accepted if it is not possible, or not in the best interests of Members and former Members who have not yet received the Redemption Price for their Units at the time the circumstances arise, for it to process redemption requests or make the payment (as applicable) due to one or more circumstances outside its control, (such as restricted or suspended trading or extreme price fluctuation or uncertainty in the market for an Asset) but not due to any event which was reasonably foreseen by the Responsible Entity at the time it Accepted the redemption request. The period allowed under clause 9.4 for consideration of the redemption request or payment of the Redemption Price may be extended by the number of days during which such circumstances apply.
- (b) In relation to a redemption offer to which Part 5C.6 of the Corporations Act applies, the Responsible Entity must pay the redemption proceeds to the withdrawing Member or former Member within 21 days of the date on which the redemption offer closes.<sup>24</sup>
- (c) If Acceptance of a redemption request would result in the Member holding Units with an aggregate Redemption Price which is less than the then current minimum holding amount, the Responsible Entity may treat the redemption request as relating to the balance of the Member's holding.

## **9.6 Increased minimum**

If the Responsible Entity increases the minimum holding amount, the Responsible Entity may, after giving 30 days' notice to a Member who holds Units with an aggregate Redemption Price less than the then current minimum holding amount, redeem that Member's holding without the need for a redemption request.

## **9.7 Payment from the Assets**

The Responsible Entity is not obliged to pay any part of the Redemption Price out of its own funds.

## **9.8 While Trust is not Liquid<sup>25</sup>**

- (a) While the Trust is not Liquid,<sup>26</sup> a Member may withdraw from the Trust in accordance with the terms of any current redemption offer made by the Responsible Entity in accordance with the provisions of the Corporations Act regulating offers of that kind.<sup>27</sup> If there is no redemption offer currently open for acceptance by Members, a Member has no right to request redemption from the Trust.
- (b) The Responsible Entity is not at any time obliged to make a redemption offer. If it does, it may do so by sending a copy of the offer to all Members, or making a copy of the offer available by electronic means and giving notice to Members that it is available.

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<sup>24</sup> Section 601KD.

<sup>25</sup> Required to be included by section 601GA(4)(c) if Members are to have right to redeem while the Trust is a Registered Scheme.

<sup>26</sup> For a definition of a liquid Trust see section 601KA(1).

<sup>27</sup> Refer to sections 601KB to 601KE.

## **9.9 Cancellation of redemption offer**

- (a) The Responsible Entity may cancel a redemption offer at any time. If it does, it may do so by sending a copy of the offer to all Members, or making a copy of the offer available by electronic means and giving notice to Members that it is available.
- (b) The cancellation of a redemption offer by the Responsible Entity does not affect the rights of Members whose acceptance of the offer has been received by the Responsible Entity in accordance with clause 16 after the offer period has opened but before the date on which the offer is cancelled to withdraw from the Trust in accordance with the terms of the redemption offer.

## **9.10 Treatment of request**

If the Responsible Entity receives a redemption request, and the Trust subsequently ceases to be Liquid before that request has been Accepted or rejected, the request lapses.

## **9.11 Sums owed to Responsible Entity**

- (a) The Responsible Entity may deduct from the proceeds of redemption or money paid pursuant to a redemption offer any money due to it by the Member.
- (b) While the Trust is Liquid, the Responsible Entity may redeem without a redemption request some or all of the Units held by a Member to satisfy any amount of money due to it by the Member, including an entitlement to be indemnified by a Member under clause 13.9(b)(viii) or 13.9(b)(ix) or under the AMIT Regime more generally. In these circumstances the Responsible Entity will be taken to have received and Accepted a redemption request in respect of the Units for the purposes of this clause 9.

## **9.12 When Units are redeemed**

Units are taken to be redeemed:

- (a) where the redemption is to occur in response to a redemption request from a Member, at the time as at which the Responsible Entity has:
  - (i) received and Accepted the redemption request in respect of the Units; and
  - (ii) calculated the Redemption Price of the Units;<sup>28</sup> or
- (b) if paragraph (a) does not apply, at the time at which the Redemption Price is known and the redemption is recorded in the Register,

and from that time until payment of the Redemption Price, the former holder of the redeemed Units ceases to be a Member in respect of those Units and is a creditor of the Trust in respect of the redemption proceeds.

If Units are redeemed at the time referred to in paragraph (a), the Responsible Entity must as soon as is reasonably practicable arrange for the redemption of the Units to be recorded in the Register.

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<sup>28</sup> ASIC RG 134.168.

### 9.13 Cooling Off

Nothing in this clause 9 prevents the Responsible Entity from complying with any requirement to return application money to Members in accordance with Part 7.9 of the Corporations Act or with any similar requirement that applies to the Responsible Entity.

### 9.14 Distribution of Income

- (a) If, during a Distribution Period, the Responsible Entity Accepts a redemption request from a Member and:
  - (i) where there is only one Class on issue at the time, the redemption request is in respect of 5% or more of the Units on issue at the start of the Distribution Period or such other amount as may be determined by the Responsible Entity and notified to Members from time to time; or
  - (ii) where there is more than one Class on issue at the time, the redemption request is in respect of 5% or more of the Units on issue in the relevant Class at the start of the Distribution Period for the Class or such other amount as may be determined by the Responsible Entity and notified to Members from time to time,

("Redemption Request") then, subject to the Corporations Act and clause 9.14(b), the Responsible Entity must determine at or before the end of the relevant Distribution Period:

  - (iii) what amount ("Income Component") of the payment in satisfaction of the Redemption Request ("Redemption Payment") in respect of the Units or the Class (as the case may be) represents a distribution of the Income for that Financial Year; and
  - (iv) whether the Income Component of the Redemption Payment will comprise a distribution of Income for the Financial Year of any particular character for tax purposes.
- (b) Despite clause 9.14(a), where there is more than one Class on issue at the time the Responsible Entity Accepts a redemption request and the redemption request relates to two or more Classes then, unless clause 9.14(a)(ii) is satisfied in relation to each of those Classes, the Responsible Entity must only make a determination, that an amount of the payment in satisfaction of the redemption request represents a distribution of the Income for that Financial Year, in respect of that part of the payment which is referable to the Class or Classes for which clause 9.14(a)(ii) is satisfied.
- (c) Where the Responsible Entity makes a determination under clause 9.14(a) in respect of a Member or former Member, the Responsible Entity must:
  - (i) make the determination by reference to:
    - (A) where there is only one Class on issue:
      - (aa) that component of the Income of the Trust for the Financial Year to date that has not been distributed at the time the Redemption Price in respect of the Redemption Request is



determined under clause 8 that the Responsible Entity determines is referable to:

- (AA) capital gains; or
  - (BB) amounts which reflect gains (which are not capital gains) on the disposal or realisation of Assets; and
- (ab) the increase in the component of the Income of the Trust referred to in clause 9.14(c)(i)(A)(aa) as a result of the Responsible Entity realising sufficient assets to satisfy the Redemption Request; and
  - (ac) the number of Units specified in the Redemption Request and the number of Units on issue at the time the Redemption Request is made; and
- (B) where there is more than one Class on issue:
- (aa) the component of the Income of the Trust referred to in clause 9.14(c)(i)(A)(aa) that the Responsible Entity determines is referable to the Class for which the Member has submitted the Redemption Request; and
  - (ab) the increase in the component of the Income of the Trust referred to in clause 9.14(c)(i)(B)(aa) as a result of the Responsible Entity realising sufficient assets to satisfy the Redemption Request; and
  - (ac) the number of Units of the relevant Class or Classes of Units specified in the Redemption Request and the number of Units in the relevant Class or Classes of Units at the time the Redemption Request is made; and
- (ii) notify the Member or former Member of the composition of the Redemption Payment.

#### **9.15 When Member ceases to be eligible to hold Units**

- (a) Where:
- (i) a Member advises the Responsible Entity that the Member is not an Eligible Person; or
  - (ii) the Responsible Entity forms the view that the Member is not an Eligible Person;

the Responsible Entity may request that the Member:

- (A) dispose of all Units held by the Member within 30 days (or such longer period as the Responsible Entity may determine from time to time) to a person who is an Eligible Person; or

- (B) if the Trust is Liquid at the relevant time, lodge a redemption request in respect of all of the Units held by the Member, within 30 days (or such longer period as the Responsible Entity may determine from time to time).
- (b) Where a Member fails to comply with a request under clause 9.15(a) and the Trust is Liquid at the relevant time, the Responsible Entity may compulsorily redeem all of the Units held by the Member. The Responsible Entity is deemed to have received and Accepted a redemption request from the Member immediately before the next Valuation Time after the Responsible Entity determined to compulsorily redeem all of the Units held by the Member.

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## **10 Valuation of assets and determination of pricing variables**

### **10.1 Periodic valuations**

The Responsible Entity may cause an Asset to be valued at any time, and must do so as and when required by the Corporations Act.<sup>29</sup>

### **10.2 Net Asset Value and Value of Assets and Liabilities**

The Responsible Entity may determine Net Asset Value at any time, including more than once on each day.

### **10.3 Class Liabilities and Class Assets**

- (a) The Responsible Entity may determine that a Liability or any part of a Liability is properly attributable to a Class for the purposes of this constitution, having regard to the rights, obligations and restrictions that attach to Units of the relevant Class. Any Liability or part of a Liability that is subject to such a determination becomes a Class Liability of the Class from that time.
- (b) The Responsible Entity may determine that an Asset is properly attributable to a Class for the purposes of this constitution, having regard to the rights, obligations and restrictions that attach to Units of the relevant Class. Any Asset that is subject to such a determination is a Class Asset of the Class from that time.
- (c) The determination by the Responsible Entity that an Asset or a Liability of the Trust is a Class Asset or a Class Liability of a Class:
  - (i) does not result in the Asset or Liabilities ceasing to be an Asset or Liability of the Trust more generally;
  - (ii) does not settle those Assets or Liabilities on a separate trust for the benefit only of Members of the relevant Class;
  - (iii) does not provide for Members of the relevant Class to have a beneficial interest in those Class Assets and Class Liabilities at the exclusion of Members of other Classes; and

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<sup>29</sup> See section 601FC(1)(j) for Scheme Operator's obligations concerning valuation

- (iv) applies under this constitution only for the purposes of determining the Application Price, Redemption Price and Income Entitlements of Units of the relevant Class.
- (d) Class Liabilities of a particular Class may be satisfied by the Responsible Entity using Class Assets of a different Class or Assets which are not Class Assets.
- (e) Liabilities of the Trust (that are not Class Liabilities) may be satisfied by the Responsible Entity using Class Assets of a particular Class or Assets which are not Class Assets.

#### **10.4 Valuation methods**

The Responsible Entity's policy for the valuation of Assets must be based on the range of ordinary commercial practice for valuing the relevant type of asset and, where used to calculate the Application Price or Redemption Price of a Unit, the value must be reasonably current.<sup>30</sup> In the absence of any other determination by the Responsible Entity, the value of an Asset will be its Market Value.

#### **10.5 Currency conversion**

Where it is necessary for the purposes of a valuation to convert one currency to another, the conversion is to be made at a time and at the rate quoted by a bank or an independent pricing provider (such as Reuters) nominated by the Responsible Entity. Where the value of an Asset denominated in foreign currency is converted for the purposes of calculating the Redemption Price of a Unit, the currency valuation applied must be consistent with the range of ordinary commercial practice for valuing currency.<sup>31</sup>

#### **10.6 Financial Year Determination**

The determination of a Financial Year for the application of clause 11 or complying with the income tax obligations in relation to the Trust do not affect the Responsible Entity's determination as to the financial year of the Trust for the purposes of preparing accounts and lodging returns required for registered schemes under the Corporations Act.

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## **11 Income and distributions to Members**

### **11.1 Income**

- (a) The Responsible Entity must determine the Income of the Trust for each Distribution Period and Financial Year. Where there is more than one Class on issue, the Responsible Entity must determine the Income of the Trust for each Distribution Period for every Class on issue in the Trust during the Financial Year.
- (b) Unless the Responsible Entity determines otherwise prior to the end of the relevant Distribution Period or Financial Year, Income is:
  - (i) for a Financial Year, the aggregate of:
    - (A) where the Financial Year is an AMIT Income Year, the amount determined by the Responsible Entity as being the minimum amount which, if distributed by the

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<sup>30</sup> ASIC RG 134.111 provides guidance on the meaning of "reasonably current".

<sup>31</sup> ASIC RG 134.109.

Responsible Entity in respect of the Financial Year, would prevent there being an adjustment to the tax cost base of any Units in the Trust under the AMIT Regime for the Financial Year, assuming that the Determined Member Components for each Member for the Financial Year equal the Member's entitlement to the distribution;

- (B) where the Financial Year is not an AMIT Income Year, the amount which the Responsible Entity determines to be the "net income of the trust estate" for the Trust for the purposes of section 95 of the Tax Act for the Financial Year, but disregarding:
  - (aa) any amounts the Responsible Entity determines are included in the "net income of the trust estate" of the Trust for the Financial Year that represent either or both franking credits or foreign tax offsets; and
  - (ab) any reduction in the net capital gain for the Trust for the Financial Year which the Responsible Entity determines arises as a result of the discount capital gains concession; and
- (C) any additional amount that the Responsible Entity considers appropriate for distribution for the Financial Year; and
- (ii) for a Distribution Period, an estimate of the Income for the Distribution Period determined as if the Distribution Period is a Financial Year and a "year of income" for the purposes of the Tax Act.
- (c) The preparation of the accounts of the Trust in accordance with any current or past Australian accounting standards and generally accepted accounting principles is not to be regarded as a determination of the method for calculating the Income under clause (b).

## **11.2 Power to defer distributions**

- (a) The Responsible Entity may, for any Interim Distribution Period, including an Interim Distribution Period for a particular Class, determine to defer the distribution of any amount of the Income of the Trust for the Interim Distribution Period as a Deferred Distribution Amount for the Distribution Period. Any such determination must be made by the Responsible Entity prior to the end of the Interim Distribution Period.
- (b) The Responsible Entity may not defer the distribution of any amounts under clause 11.2(a) which the Responsible Entity has distributed as an Income Component or an Income Entitlement, including an Income Entitlement for another Class.
- (c) If the Responsible Entity determines a Deferred Distribution Amount for an Interim Distribution Period:
  - (i) the amount of Income of the Trust for the Interim Distribution Period that is to be distributed for the Interim Distribution Period will be reduced by the Deferred Distribution Amount in accordance with clause 11.5;

- (ii) the Responsible Entity may distribute the Deferred Distribution Amount in another Interim Distribution Period in the same Financial year in accordance with clause 11.5, including, where there is more than one Class on issue, in an Interim Distribution Period for another Class; and
  - (iii) the Responsible Entity must distribute the Deferred Distribution Amount by the Final Distribution Period for the Financial Year, unless the Responsible Entity determines to accumulate the Deferred Distribution Amount pursuant to clause 11.3.
- (d) Deferred Distribution Amounts continue to form part of the Assets and no Member has any particular right or interest in a Deferred Distribution Amount. Deferred Distribution Amounts are not Liabilities of the Trust.

### **11.3 Power to accumulate amounts**

- (a) The Responsible Entity may, for any AMIT Income Year, determine at any time prior to the end of the Financial Year that all or part of the Income of the Trust for the Financial Year will be accumulated, provided that the Income has not already been distributed to Members as an Income Entitlement or Income Component.
- (b) The effect of the Responsible Entity exercising its power to accumulate an amount under clause 11.3(a) is to exclude the relevant amount from being distributed as Income for the Financial Year, including for any Distribution Period for any Class in the Financial Year.
- (c) For the purposes of identifying the Members to whom any Trust Components that are reflected in the amounts accumulated under paragraph 11.3(a) are to be attributed under the AMIT Regime, any amounts accumulated are to be treated as having been accumulated for the benefit of Members at the date specified by the Responsible Entity for these purposes at the time the Responsible Entity determined to accumulate the amount.
- (d) If the Responsible Entity mistakenly seeks to exercise its power to accumulate an amount in a Non-AMIT Income Year, the Responsible Entity's exercise of the power will be treated as invalid and will, to the extent possible, be treated as if it were an exercise of the Responsible Entity's power to determine a Deferred Distribution Amount pursuant to clause 11.2.

### **11.4 Classification of amounts**

Without limiting clauses 11.1 to 11.3, the Responsible Entity has the power to determine:

- (a) the classification of any item as being Income or otherwise;
- (b) the extent to which reserves or provisions need to be made;
- (c) whether any item should be recognised as it is received or as it accrues (but not yet received); and
- (d) the character for tax purposes of any Deferred Distribution Amounts, or any Income which the Responsible Entity chooses to accumulate pursuant to clause 11.3.

## 11.5 Income Entitlements

- (a) If there is only one Class on issue at the end of a Distribution Period, the Income Entitlement for a Member or former Member for the Distribution Period is an amount calculated by the Responsible Entity as follows:

- (i) in respect of an Interim Distribution Period, the aggregate of:

- (A) where the Responsible Entity has made a determination under clause 9.14(a) at or before the end of the Distribution Period in respect of the Member or former Member, the aggregate of the Income Components determined by the Responsible Entity, in respect of the Member or former Member, during the Distribution Period; and

- (B) the amount calculated as follows:

$$\frac{A \times C}{B}$$

where:

A is the number of Units held by the Member at the end of the Distribution Period;

B is the total number of Units on issue at the end of the Distribution Period; and

C is the aggregate of the following amounts, but only to the extent to which they have not already been distributed by the Responsible Entity at the end of the Distribution Period as an Income Component:

- (1) the Income of the Trust for the Distribution Period, determined disregarding:

- any Deferred Distribution Amounts for the Distribution Period;
- any Income of the Trust for the Distribution Period which the Responsible Entity has determined to accumulate pursuant to clause 11.3; and

- (2) so much of the Undistributed Deferred Distribution Amounts for the Distribution Period that the Responsible Entity determines, in its absolute discretion, is appropriate to distribute for the Distribution Period; and

- (ii) in respect of a Final Distribution Period, the aggregate of:

- (A) where the Responsible Entity has made a determination under clause 9.14(a) at or before the end of the Distribution Period in respect of the Member or former

Member, the aggregate of the Income Components determined by the Responsible Entity, in respect of the Member or former Member, during the Distribution Period; and

(B) the amount calculated as follows:

$$\frac{A \times C}{B}$$

where:

- A is the number of Units held by the Member at the end of the Distribution Period;
- B is the total number of Units on issue at the end of the Distribution Period; and
- C is the amount (if any) by which the Income for the Financial Year exceeds the aggregate of:
  - (1) all Income Entitlements that have arisen in the Trust for previous Distribution Periods in the Financial Year;
  - (2) the aggregate of the Income Components determined by the Responsible Entity, in respect of all Members and former Members for the Distribution Period; and
  - (3) all of the Income of the Trust for the Financial Year that the Responsible Entity has determined to accumulate pursuant to clause 11.3.

(b) If there is more than one Class on issue at the end of a Distribution Period for a Class, the Income Entitlement for a Member or former Member in respect of Units of the Class ("**Relevant Class**") for the Distribution Period is an amount calculated by the Responsible Entity as follows:

(i) in respect of an Interim Distribution Period, the aggregate of:

- (A) where the Responsible Entity has made a determination under clause 9.14(a) in respect of Units of the Relevant Class at or before the time of calculation of Income Entitlements for the Distribution Period, the aggregate of the Income Components determined by the Responsible Entity, in respect of Units in the Relevant Class held by the Member or former Member, during the Distribution Period; and

(B) the amount calculated as follows:

$$\frac{A}{B} \times [(AF \times C) + D]$$

where:

- A is the number of Units in the Relevant Class held by the Member at the end of the Distribution Period;
- B is the total number of Units in the Relevant Class on issue at the end of the Distribution Period;
- AF is the Apportionment Factor for the Relevant Class at the end of the Distribution Period;
- C is the aggregate of the following amounts, but only to the extent that they have not already been distributed by the Responsible Entity by the end of the Distribution Period as an Income Component or an Income Entitlement for another Class:
- (1) the Non-Class Income of the Trust for the Distribution Period, reduced by:
    - so much of any Deferred Distribution Amounts for the Distribution Period as the Responsible Entity determines are Non-Class Income; and
    - so much of the Non-Class Income that the Responsible Entity has determined to accumulate pursuant to clause 11.3; and
  - (2) so much of any Undistributed Deferred Distribution Amounts for the Distribution Period that the Responsible Entity determines:
    - is appropriate to distribute for the Distribution Period; and
    - represent Non-Class Income;
- D is the aggregate of the following amounts, but only to the extent that they have not already been distributed by the Responsible Entity by the end of the Distribution Period as an Income Component:
- (1) the Class Income for the Relevant Class for the Distribution Period, reduced by:
    - so much of any Deferred Distribution Amounts for the Distribution Period as the Responsible Entity determines are Class Income for the Class; and



- so much of the Class Income for the Relevant Class for the Distribution Period that the Responsible Entity has determined to accumulate pursuant to clause 11.3; and
- (2) so much of any Undistributed Deferred Distribution Amounts for the Distribution Period that the Responsible Entity determines:
- is appropriate to distribute for the Distribution Period; and
  - represent Class Income for the Relevant Class;
- (ii) in respect of a Final Distribution Period, the aggregate of:
- (A) where the Responsible Entity has made a determination under clause 9.14(a) in respect of Units of the Relevant Class at or before the time of calculation of Income Entitlements for the Distribution Period, the aggregate of the Income Components determined by the Responsible Entity, in relation to Units of the Relevant Class, to the Member or former Member during the Distribution Period; and
- (B) the amount calculated as follows:

$$\frac{A}{B} \times [(AF \times C) + D]$$

where:

- A is the number of Units in the Relevant Class held by the Member at the end of the Distribution Period;
- B is the total number of Units in the Relevant Class on issue at the end of the Distribution Period;
- AF is the Apportionment Factor for the Relevant Class at the end of the Distribution Period;
- C is the amount (if any) by which the Non-Class Income of the Trust for the Financial Year exceeds the aggregate of:
- (1) the aggregate of all Income Entitlements for previous Distribution Periods in the Financial Year, to the extent that the Responsible Entity determines that they were sourced from the Non-Class Income of the Trust for the Financial Year;

- (2) the aggregate of the Income Components determined by the Responsible Entity, in respect of all Members and former Members for the Distribution Period, to the extent that they were sourced from the Non-Class Income of the Trust for the Financial Year; and
- (3) any Non-Class Income of the Trust for the Financial Year which the Responsible Entity has determined to accumulate pursuant to clause 11.3;

D is the Class Income of the Relevant Class for the Financial Year, reduced by the aggregate of:

- (1) the aggregate of all Income Entitlements for previous Distribution Periods in the Financial Year, to the extent that the Responsible Entity determines that they were sourced from the Class Income of the Relevant Class for the Financial Year;
- (2) any Income Components for all Members or former Members that arose during the Distribution Period, to the extent that they were sourced from Class Income of the Relevant Class for the Financial Year; and
- (3) any Class Income of the Relevant Class for the Financial Year which the Responsible Entity has determined to accumulate pursuant to clause 11.3.

(c) If as a result of one or more redemption requests received by the Responsible Entity on a day, in relation to Units of a Class of Units the Responsible Entity determines that all the Units of that Class will be redeemed, the Responsible Entity may determine a Distribution Calculation Date for the Class immediately prior to calculation of the Redemption Price for all Units of that Class and the Responsible Entity may determine to treat that Distribution Period as a Final Distribution Period for the purposes of determining variable "D" in paragraph (b) above.

(d) The treatment of an amount of Income as Class Income of a Class:

- (i) applies exclusively for the purposes of determining which Members are entitled to receive an Income Entitlement that includes those amounts of Income, in accordance with clause 11.5(b); and
- (ii) does not, of itself, settle the Class Income on the terms of a separate trust for Members of the relevant Class at the exclusion of Members of other Classes, until such time as an Income Entitlement arises in respect of the Class Income.

## 11.6 Satisfaction of Income Entitlements

Income Entitlements must be paid to a Member or former Member within three months after the relevant Distribution Calculation Date, or if the audit (if any) for that Distribution Period has not been completed, as soon as reasonably practicable after its completion, other than the component of the Income Entitlements of a Member or former Member which represents Income Components, the payment of which is satisfied by the payment of the relevant Redemption Payment.

## 11.7 Other distributions

The Responsible Entity may at any time distribute any amount other than Income to Members of the Trust by the payment of cash or the issue of additional Units of an amount determined in accordance with the following formula:

$$CE = \frac{DA \times UV}{AUV}$$

where

- CE is the proportion of the distribution to which the Member is entitled;
- DA is the amount other than Income determined by the Responsible Entity to be distributed to Members;
- UV is the sum of the Redemption Price for all Units held by the Member in the Trust at the date of distribution calculated by:
- (i) disregarding clause 6.2;
  - (ii) determining each of the variables in clause 8.1(a) and clause 8.1(b) (whichever is applicable) at the date of distribution; and
  - (iii) assuming all Units held by the Member at the relevant time were to be redeemed at the date of distribution;
- AUV is the aggregate of the Redemption Price for all Units on issue in the Trust at the date of distribution calculated by:
- (i) disregarding clause 6.2;
  - (ii) determining each of the variables in clause 8.1(a) and clause 8.1(b) (whichever is applicable) at the date of distribution; and
  - (iii) assuming all Units held by the Member at the relevant time were to be redeemed at the date of distribution.

## 11.8 Separate accounts

- (a) Subject to clause 11.8(b), the Responsible Entity may:
- (i) keep separate accounts of different categories or sources of Income, or deductions or credits for tax purposes, and may allocate Income, deductions or credits from a particular category or source, or both, for tax purposes to particular Members, including, without limitation, of capital gains and franked dividends; and
  - (ii) allocate items of Income, deductions or credits from a particular category or source, or both, for tax purposes to particular

Members, including, without limitation, as part of the Income Entitlements of Members, provided that the allocation is not inconsistent with the entitlements of Members or former Members to Income as determined in accordance with clause 11.5 above.

For any Non-AMIT Income Year, where the Responsible Entity allocates items of Income, deductions or credits from a particular category or source for tax purposes to a Member other than pro rata with all other Members, the Responsible Entity must:

- (iii) notify the Member; and
  - (iv) record, in the accounts and records of the Trust, the allocation of the items of Income, deduction or credit from the particular category or source to the Member.
- (b) For any Non-AMIT Income Year, where, pursuant to clause 9.14(a), the Responsible Entity determines that:
- (i) an Income Component is to arise in respect of a Member or a former Member; and
  - (ii) the Income Component is to comprise Income of the Trust for the Financial Year from a particular category or source, or both, for tax purposes;

then the Responsible Entity must, pursuant to clause 11.8(a):

- (iii) maintain separate accounts of the different categories or sources of Income for tax purposes;
- (iv) allocate items of Income from the relevant categories or sources to the Member or former Member as part of the relevant Income Entitlements of the Member or former Member;
- (v) notify the Member or former Member; and
- (vi) record, in the accounts and records of the Trust, the allocation of the items of Income from the particular category or source to the Member or former Member.

## **11.9 Attribution of income under AMIT Regime – basis for attribution**

- (a) For any AMIT Income Year, the Responsible Entity must, following the end of the Financial Year, attribute all of the Trust Components and Determined Trust Components of the Trust, or each Class in the Trust where there is an AMIT Class Election in force, to the Members or former Members under the AMIT Regime.
- (b) The Responsible Entity undertakes to perform attribution under clause 11.9(a) in accordance with the following principles:
  - (i) the amount of each Member's or former Member's Member Components and Determined Member Components of a particular character is so much of the Trust's Determined Trust Component of that particular character as is attributable to the units in the Trust held by the Member or former Member, having regard to the provisions of this constitution;

- (ii) the attribution must be worked out on a fair and reasonable basis, in accordance with this constitution and any other documents that constitute Constituent Documents for the Trust;
  - (iii) the Responsible Entity must not attribute any part of a Determined Trust Component to a Member or former Member because of the tax characteristics of the Member or former Member; and
  - (iv) if there is more than one Class on issue in the Trust and the Responsible Entity elects for each Class on issue in the Trust to be a separate AMIT under the AMIT Regime, each Class will be treated as a separate AMIT for the purposes of determining the attribution under clause 11.9(a).
- (c) Subject to clause 11.10, but without limiting the generality of paragraph 11.9(b), the Responsible Entity must attribute in respect of an AMIT Income Year:
- (i) to each Member or former Member, so much of the Determined Trust Components of the Trust or the relevant Class (where there is an AMIT Class Election in effect) as are reflected in any Income Entitlements that the Member or former Member has become entitled to during the Financial Year, including any Income Components arising on the redemption of Units in the Trust; and
  - (ii) to each Member or former Member of the Trust at a time or times specified in clause 11.3(c) ("**Relevant Time**"), so much of the Determined Trust Components of the Trust or the relevant Class (where there is an AMIT Class Election in effect) for the Financial Year as the Responsible Entity reasonably determines are reflected in any Income Entitlements that the Member or former Member would have received at the Relevant Time, if the Relevant Time was the end of a Distribution Period of the Trust or for each Class in the Trust if there is more than one Class on issue at the Relevant Time and the amount accumulated under clause 11.3(a) were the only amounts distributed for that Distribution Period.

#### **11.10 Attribution of income under AMIT Regime – AMIT Class Election**

Where there is an AMIT Class Election in effect, and without limiting the generality of clause 11.9:

- (a) in calculating the Determined Trust Components of each Class, the Responsible Entity must:
  - (i) in respect of Class Income of a Class, only include any Determined Trust Components that are reflected in that Class Income in the Determined Trust Components of that Class (and not any other Class); and
  - (ii) in respect of Class Expenses of a Class, only take those Class Expenses into account in determining the Trust Components of that Class (and not any other Class); and
- (b) the Responsible Entity must only attribute Determined Trust Components of a particular Class to Members of that Class (and not any other Class).

### 11.11 Attribution of income under AMIT Regime – Member objections

If a Member or former Member makes an objection or proposed objection in relation to how the Responsible Entity attributes the Trust Components and Determined Trust Components of the Trust or a particular Class (where there is an AMIT Class Election in effect) under the AMIT Regime for an AMIT Income Year:

- (a) the Member or former Member must:
  - (i) provide the Responsible Entity with written notice of the Member's or former Member's intention to make an objection at least five Business Days prior to notifying the Commissioner of Taxation of its objection;
  - (ii) include, in the notice provided to the Responsible Entity, a summary of the reasons why the Member or former Member considers the attribution to be inappropriate;
  - (iii) provide to the Responsible Entity any information the Responsible Entity reasonably requests in relation to the Member's or former Member's objection or proposed objection and proceeding in relation to the objection;
  - (iv) consent to the Responsible Entity becoming a party to any proceedings with the Commissioner of Taxation relating to the objection;
  - (v) indemnify the Responsible Entity against all costs and liabilities incurred by the Responsible Entity as a result of the objection or proposed objection; and
  - (vi) do, or omit to do, any other such acts, matters or things as the Responsible Entity reasonably requests in order to appropriately protect the interests or rights of other Members or former Members of the Trust in relation to the objection, proposed objection or any proceedings arising in relation to the objection;
- (b) the Responsible Entity may take such actions as it considers necessary, appropriate or reasonable to provide for the rights and interests of other Members or former Members of the Trust to be protected, including in dealings with the Commissioner of Taxation; and
- (c) the Responsible Entity may amend its attribution of income for tax purposes to Members based on the Responsible Entity's determination of what attribution is appropriate, and take such actions as the Responsible Entity determines is necessary to give effect to the amended attribution, including issuing or reissuing AMMA Statements to Members.

### 11.12 Unders/Overs

The Responsible Entity must address any Unders or Overs that arise in respect of an AMIT Income Year in accordance with the AMIT Regime. Subject to the Corporations Act, the Responsible Entity is not liable to any Member or former Member with respect to how it addresses any Unders or Overs provided that the Responsible Entity addresses them in accordance with the AMIT Regime and irrespective of whether any choices made by the Responsible Entity results in a different attribution outcome for the Member than if the Responsible Entity had not made the choice, or had made the choice in a different way.

### **11.13 Present entitlement – Division 6**

- (a) Subject to clause 11.8, for any Financial Year that is not an AMIT Income Year, a person who at any time during the Financial Year is or has been a Member, is presently entitled to the Income of the Trust for the Financial Year as at the last day of the Financial Year, in the proportion that the Income Entitlements of the person in respect of the Financial Year bear to the sum of the Income Entitlements of all persons who are or have been Members at any time during the Financial Year.
- (b) The present entitlement of a person who at any time during the Financial Year is a Member to the Income of the Trust for a Financial Year is satisfied by the payment of the Income Entitlements to the person in respect of the Financial Year.

### **11.14 Reinvestment**

- (a) The Responsible Entity may decide whether to permit or require the Members to reinvest some or all of any distribution to acquire Units.
- (b) If the Responsible Entity decides to permit or require reinvestment, it must notify Members of the procedure for reinvestment and any change in the procedure.
- (c) If reinvestment applies, the Responsible Entity is deemed to have received and Accepted an application to reinvest and the relevant application money at the end of the relevant Distribution Period.

### **11.15 Position on transfer of Units**

A person who is or was a Member as at a Distribution Calculation Date remains entitled to their share (if any) of the Income under clause 11.5 despite any transfer, transmission or redemption of Units by or in respect of the person, being Units which gave rise to the entitlement.

### **11.16 Indefeasibility**

Despite any other provision of this constitution, a person cannot be defeated of any share of the Income to which the person is entitled under clause 11.5.

### **11.17 Fractions**

If the share of Income for a Member determined under clause 11.5 includes a fraction of a cent, the share is to be adjusted to the nearest cent below the amount calculated under clause 11.5 and the fraction of the cent becomes an Asset of the Trust.

### **11.18 Liability**

The Responsible Entity does not incur any liability nor is it obliged to account to anyone (including any Member or former Member) nor is it liable for any loss or damage as a result of the exercise of any discretion or power under this clause 11 or under the AMIT Regime in respect of an AMIT Income Year, or in respect of any determination of fact or law made as part of, or as a consequence of, the exercise of such discretion or power despite any error or miscalculation in any provision made for Tax.

### **11.19 Member may direct**

The Responsible Entity may act on a direction given by a Member in any form as the Responsible Entity requires to pay to a third party nominated in the direction

all or part of the Member's entitlement to Income and distributions of other amounts under this clause 11 or under clause 23 on winding up.

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## **12 Payments**

### **12.1 Payment method**

Money payable by the Responsible Entity to a Member may be paid in any manner the Responsible Entity decides.

### **12.2 Cheques**

Cheques issued by the Responsible Entity that are not presented within six months may be cancelled. Where a cheque which is cancelled was drawn in favour of a Member, the money is to be held by the Responsible Entity for the Member or paid by the Responsible Entity in accordance with the legislation relating to unclaimed moneys.

### **12.3 Electronic transfers**

Where the Responsible Entity attempts to make a payment by electronic transfer of funds to a Member and the transfer is unsuccessful on three occasions, the money may be held by the Responsible Entity for the Member or paid by the Responsible Entity in accordance with the legislation relating to unclaimed moneys.

### **12.4 Rounding**

Only whole cents are to be paid and any remaining fraction of a cent becomes an Asset.

### **12.5 Third party arrangements**

The Responsible Entity may from time to time make available to Members a third party payment facility on terms and conditions determined by the Responsible Entity. Where, under the terms of a third party payment facility the Member requests that the proceeds of a redemption of Units be paid to a third party, the redemption proceeds may be paid to a third party in accordance with that request.

### **12.6 Transfer of Assets**

- (a) The Responsible Entity may transfer Assets to a Member rather than pay cash in satisfaction of all or part of a redemption request, in payment of a distribution or as part of the winding up of the Trust, either:
  - (i) with the consent of the Member; or
  - (ii) if the Responsible Entity reasonably considers the transfer of Assets rather than cash is in the best interests of Members as a whole, without the consent of the Member which is to receive the transfer of Assets.
- (b) The Assets transferred, together with any cash paid, must be of equal value to the total amount due to the Member (based on a valuation which is consistent with the range of ordinary commercial practice for valuation of assets of that type and is reasonably current, having regard to the



type of asset involved and prevailing market conditions<sup>32</sup>). If paragraph (a)(i) applies, the costs involved in the transfer of these Assets must be paid by the Member or deducted from the amount due to the Member.

- (c) For the purposes of this clause 12.6 the Responsible Entity will be taken to have the transferred Assets to a Member or former Member where the Responsible Entity has done everything reasonably necessary on its part to convey the Assets to the Member or former Member.

## **12.7 Joint Members**

A payment to any one of joint Members will discharge the Responsible Entity in respect of the payment.

## **12.8 Deduction of Tax or amounts owing**

The Responsible Entity may deduct from any amount to be paid to a person who is or has been a Member, or received from a person who is or has been a Member, any amount of Tax (or an estimate of it) or any other amount owed by the Member to the Responsible Entity or any other person which the Responsible Entity is required or authorised to deduct by law or by this constitution or which the Responsible Entity considered should be deducted.

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# **13 Powers of the Responsible Entity**

## **13.1 General powers**

- (a) Subject to this constitution, the Responsible Entity has all the legal capacity and powers both inside and outside Australia in respect of the Trust that it is possible under the law to confer on a trustee and as though the Responsible Entity were an individual who is the absolute owner of the Assets acting in their personal capacity.
- (b) The Responsible Entity is not and nothing in this constitution entitles the Responsible Entity to act as, the agent of any Member or Members.

## **13.2 Contracting powers<sup>33</sup>**

Without limiting clause 13.1, the Responsible Entity in its capacity as responsible entity of the Trust has power to incur all types of obligations and liabilities including:

- (a) to borrow and raise money (whether or not on a secured basis and in any manner whatsoever including all forms of financial accommodation and debt facilities);
- (b) to grant all types of security (whether for the obligations of the Responsible Entity or another person);
- (c) to grant guarantees and indemnities; and
- (d) to enter into derivatives.

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<sup>32</sup> ASIC RG 134.179

<sup>33</sup> Required to be included by Section 601GA(3)

### **13.3 Investment and lending powers**

Without limiting clause 13.1, the Responsible Entity may in its capacity as responsible entity of the Trust invest in, dispose of or otherwise deal with property and rights in its absolute discretion.<sup>34</sup> This includes power to:

- (a) invest the whole or part of the Assets in a single type of asset, or in trusts managed or controlled by the Responsible Entity or its related body corporate, or such other investments as the Responsible Entity determines; and
- (b) lend money and on-lend or provide financial accommodation to any person.

### **13.4 Power of delegation<sup>35</sup>**

- (a) The Responsible Entity may authorise any person to act as its agent or delegate (in the case of a joint appointment, jointly and severally) to hold title to any Asset, perform any act or exercise any discretion within the Responsible Entity's power, including the power to appoint in turn its own agent or delegate.
- (b) The Responsible Entity may include in the authorisation provisions to protect and assist those dealing with the agent or delegate as the Responsible Entity thinks fit.
- (c) The agent or delegate may be an associate of the Responsible Entity.<sup>36</sup>

### **13.5 Terms of delegation**

The Responsible Entity may include provisions in the authorisation provisions to protect and assist those dealing with the agent or delegate and to limit the Responsible Entity's liability, as the Responsible Entity thinks fit.

### **13.6 Exercise of discretion**

Subject to this constitution, the Responsible Entity may in its absolute discretion decide how, when and how often to exercise its powers.

### **13.7 Underwriting**

Subject to the Corporations Act, the Responsible Entity may enter into an agreement with a person (including an associate of the Responsible Entity) to underwrite the subscription or purchase of Units or to manage the offer of Units on such terms as the Responsible Entity determines. Unless the agreement expressly states otherwise, the underwriter or offer manager will not be an agent or delegate of the Responsible Entity.

### **13.8 Voting**

Subject to the Corporations Act, and without limiting clause 13.1, the Responsible Entity may exercise all voting rights conferred by the Assets at its absolute discretion.

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<sup>34</sup> Subject to Section 601FC(4)

<sup>35</sup> See also Section 601FB.

<sup>36</sup> Subject to Part 5C.7

### 13.9 AMIT powers

- (a) The Responsible Entity has, in addition to its other rights and powers provided for under the constitution:
  - (i) the power make an election to determine the Trust to be an AMIT
  - (ii) where there is more than one Class on issue, the power to make an AMIT Class Election; and
  - (iii) in respect of an AMIT Income Year, all of the powers and rights which are necessary or desirable to enable the Trust to:
    - (A) be eligible to apply the AMIT Regime;
    - (B) comply with the requirements of the AMIT Regime;
    - (C) be properly administered and operated under the AMIT Regime; and
    - (D) maintain equity between the Members as a result of the operation of the AMIT Regime.
- (b) The Responsible Entity may under the AMIT Regime in respect of an AMIT Income Year:
  - (i) determine the taxable income of the Trust or each Class (as appropriate) for each Financial Year, including a determination of the taxable income of a particular category, source or character for tax purposes. This includes all of the relevant Determined Trust Components and Trust Components;
  - (ii) make an attribution of the taxable income of the Trust or each Class to Members under the AMIT Regime, including an attribution of taxable income of a particular category, source or character for tax purposes. This includes all of each Member's Determined Member Components and Member Components;
  - (iii) make an alteration to the Responsible Entity's determination of the taxable income of the Trust or each Class for a Financial Year, or the Responsible Entity's attribution of the taxable income of the Trust or each Class to Members under the AMIT Regime, including a determination or attribution of taxable income of a particular category, source or character for tax purposes. This includes making alterations to the relevant Determined Trust Components and Determined Member Components as a result of any Unders or Overs;
  - (iv) determine whether to issue an AMMA Statement to any Member of the Trust;
  - (v) determine what information should be contained in any such AMMA Statement, and any other content of the AMMA Statement;
  - (vi) issue an AMMA Statement to any Member;
  - (vii) amend an AMMA Statement that has been issued to Members, and the basis on which the AMMA Statement issued to Members will be amended;

- (viii) require a Member to provide the Responsible Entity with an indemnity in respect of any Tax incurred by the Responsible Entity as a result of the application of the AMIT Regime. This includes any Tax paid by the Responsible Entity as a result of:
  - (A) the Trust or each Class having a shortfall for the purposes of section 276-405, 276-415, 276-420 or 276-425 of the Tax Act;
  - (B) the Trust or each Class having an excess for the purposes of section 276-410 of the Tax Act;
  - (C) the Trust or each Class having a trust component deficit relating to a tax offset under section 276-340 of the Tax Act; or
  - (D) the Responsible Entity making a deemed payment under section 12A-205 of the TAA 1953 to an entity covered by section 12-410 of the TAA 1953 or an entity that is not an Australian resident for the purposes of the Tax Act,
- (ix) require a Member to provide the Responsible Entity with an indemnity in respect of any cost or expenses incurred by the Responsible Entity as a result of the Member making a Member Objection Choice; and
- (x) determine how the Member must indemnify the Responsible Entity, pursuant to an indemnity required by the Responsible Entity under clauses 13.9(b)(viii) or 13.9(b)(ix) above.

### **13.10 Limitation of liability for AMIT Regime powers**

To the maximum extent permitted by law including the Corporations Act, the Responsible Entity does not incur any liability nor is it obliged to account to anyone (including any Member or former Member) nor is it liable for any loss or damage as a result of the exercise of any power, discretion or choice under clause 13.9, or in respect of any determination of fact or law made as part of, or as a consequence of, any exercise of such a power, discretion or choice despite any error or miscalculation in any provision made for Tax.

### **13.11 Clearly Defined Rights**

Any power, right or discretion conferred on the Responsible Entity under the terms of this Constitution will be read down or regarded as void to the extent necessary to ensure that the Trust will have Clearly Defined Rights.

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## **14 Retirement of Responsible Entity**

### **14.1 Voluntary retirement**

The Responsible Entity may retire as the responsible entity of the Trust as permitted by law<sup>37</sup>.

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<sup>37</sup> See Section 601FL. The change does not take effect until the ASIC alters its records: Section 601FJ

## **14.2 Compulsory retirement**

The Responsible Entity must retire as the responsible entity of the Trust when required by law<sup>38</sup>.

## **14.3 New responsible entity**

Any replacement Responsible Entity must execute a deed by which it covenants to be bound by this constitution as if it had originally been a party to it.

## **14.4 Release**

When it retires or is removed, the Responsible Entity, subject to the Corporations Act, is released from all obligations in relation to the Trust arising after the time it retires or is removed.<sup>39</sup>

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# **15 Notices to Members**

## **15.1 Form**

Subject to the Corporations Act, a notice or other communication required to be given to a Member in connection with the Trust must be given in writing (including by fax, email or other electronic means) or in any other manner as the Responsible Entity determines (including a notification that it is available by electronic means). It must be delivered or sent to the Member at their physical or electronic address last advised to the Responsible Entity for delivery of notices.

## **15.2 Cheques**

A cheque payable to a Member may be posted to their physical address or handed to them or a person authorised in writing by them.

## **15.3 Joint Members**

In the case of joint Members, their physical or electronic address means the physical or electronic address of the Member first named in the Register.

## **15.4 When notice received**

Subject to the Corporations Act a notice or other communication sent to a Member:

- (a) by post is taken to be received on the Business Day after it is posted;
- (b) by fax is taken to be received in one hour; and
- (c) by email or other electronic means is taken to be received one hour after it is sent if the sender has not received a notice of non-delivery.

A cheque is taken to be received on the Business Day after it is posted.

Proof of actual receipt is not required. Subject to the law, the Responsible Entity may determine the time at which other forms of communication will be taken to be received.

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<sup>38</sup> See Section 601FM and 601FA.

<sup>39</sup> See section 601FR for the Responsible Entity's obligation to transfer records, etc. Section 601FS restricts this release.

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## **16 Notices to the Responsible Entity**

### **16.1 Form of Notice**

A notice required under this constitution to be given to the Responsible Entity must be given in writing including by fax, or in such other manner as the Responsible Entity determines.

### **16.2 When notice received**

A notice to the Responsible Entity is effective only at the time of receipt in legible form.

### **16.3 Signature**

The notice must bear the actual, facsimile or electronic signature of the Member or their duly authorised officer or representative<sup>40</sup> unless the Responsible Entity dispenses with this requirement.

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## **17 Meetings of Members**

### **17.1 Convening of meetings**

The Responsible Entity may at any time convene a meeting of Members and must do so if required by the Corporations Act.<sup>41</sup>

### **17.2 Members' request for meeting**

The provisions of the Corporations Act apply to determine the circumstances if any in which a meeting must be convened on the request of Members.

### **17.3 Notice Period**

The requirements for notice of meetings of Members are governed by the Corporations Act.

### **17.4 Responsible Entity may determine**

Subject to this clause 17 and the Corporations Act<sup>42</sup>, the Responsible Entity may determine the time and place at which a meeting of Members will be convened and the manner in which the meeting will be conducted, including a meeting of Members at two or more venues using any technology that gives the members as a whole a reasonable opportunity to participate.

### **17.5 Quorum**

- (a) The quorum for a meeting of:
  - (i) Members of the Trust is at least 2 Members of the Trust present in person or by proxy together holding at least 5% of all Units of the Trust; and

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<sup>40</sup> See Clause 18.3(c)

<sup>41</sup> Refer Part 2G.4

<sup>42</sup> Refer Part 2G.4

- (ii) Members of a Class in the Trust, is at least 2 Members present in person or by proxy together holding at least 5% of all Units in that Class,

or such other quorum as is specified in the Corporations Act.

- (b) If the Trust or a Class has only one Member who may vote on a Resolution, the Member constitutes a quorum at a meeting of the Members or the Members of the Class.

## **17.6 No quorum**

If a quorum is not present within 15 minutes after the scheduled time for the meeting, the meeting is:

- (a) if convened on the requisition of Members - dissolved; or
- (b) otherwise - adjourned to any place and time as the Responsible Entity decides.

At any adjourned meeting, those Members present in person or by proxy constitute a quorum.

## **17.7 Chairman**

Subject to the Corporations Act<sup>43</sup> the Responsible Entity may appoint a person to chair a meeting of Members.

## **17.8 Conduct of meeting**

The decision of the chairman on any matter relating to the conduct of the meeting is final.

## **17.9 Adjournment**

The chairman has power to adjourn a meeting for any reason to a place and time as the chairman thinks fit.

## **17.10 Postponement or cancellation**

The chairman has power to cancel a meeting or postpone a meeting for any reason to a place and time as the chairman thinks fit.

## **17.11 Voting**

Subject to clause 17.14 the provisions of the Corporations Act governing voting for meetings of members of Registered Schemes apply to the Trust.

## **17.12 Proxies**

Subject to clause 17.13, the provisions of the Corporations Act governing proxies for meetings of members of Registered Schemes apply to the Trust.<sup>44</sup>

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<sup>43</sup> Refer Part 2G.4 and Section 601FC(1)

<sup>44</sup> This provision is included for completeness – while the Trust is a Registered Scheme, the law operates of its own force.

### **17.13 Validity of proxy**

The Responsible Entity may determine that the appointment of a proxy is valid even if it contains only some of the information required by the Corporations Act.

### **17.14 Demand for a poll**

A poll may be demanded by the chairman, or by the Members present in person proxy at least 5% of Units.

### **17.15 Resolutions binding**

A Resolution by:

- (a) Members, binds all Members; or
- (b) Members of a Class, binds all Members of that Class,

whether or not they voted or were present at the meeting (in the case of a Resolution passed at a meeting) or whether or not they signed the Resolution (in the case of a Resolution in writing).

### **17.16 Objection at meeting**

No objection may be made to any vote cast unless the objection is made at the meeting.

### **17.17 Non-receipt**

If a Member does not receive a notice (including if a notice was accidentally omitted to be given to them) the meeting is not invalidated.

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## **18 Rights and liabilities of Responsible Entity**

### **18.1 Holding Units**

The Responsible Entity and its associates may hold Units in the Trust or interests in any trust or company which is an associate of any of them in any capacity<sup>45</sup>.

### **18.2 Other capacities**

Subject to the Corporations Act<sup>46</sup>, the Responsible Entity (and any of its associates to the extent applicable) may:

- (a) deal with itself (as responsible entity of the Trust or in another capacity), its associates or with any Member, including to engage any of its associates to provide services to the Responsible Entity;
- (b) be interested in any contract or transaction with itself (as responsible entity of the Trust or in another capacity), its associates or with any Member or any other person including without limitation a contract or arrangement under which the Responsible Entity is entitled to receive fees or reimbursement of expenses in relation to the Trust or its office as responsible entity from a third party such as a sponsor or investment manager of the Trust; or

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<sup>45</sup> See Section 601FG, Section 253E and Part 5C.7

<sup>46</sup> Refer Part 5C.7



- (c) act in the same or a similar capacity in relation to any other managed investment scheme or trust,

or retaining for its own benefit any profits or benefits derived from any such contract or transaction.

### **18.3 Responsible Entity may rely**

The Responsible Entity may take and may act on:

- (a) the opinion or advice of counsel or solicitors, whether or not instructed by the Responsible Entity, in relation to the interpretation of this constitution or any other document or generally in connection with the Trust;
- (b) advice, opinions, statements or information from any bankers, accountants, auditors, valuers and other persons consulted by the Responsible Entity who are believed by the Responsible Entity in good faith to be expert in relation to the matters on which they are consulted;
- (c) a document which the Responsible Entity believes in good faith to be the original or a copy of an appointment by a Member of a person to act as their agent for any purpose connected with the Trust; and
- (d) any other document provided to the Responsible Entity in connection with the Trust on which it is reasonable for the Responsible Entity to rely;

and the Responsible Entity will not be liable for anything done, or omitted by it in good faith in reliance on any opinion, advice, statement, information or document.

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## **19 Limitation of liability and indemnity in favour of Responsible Entity**

### **19.1 Limitation on Responsible Entity's liability**

- (a) The Responsible Entity is not liable in contract, tort or otherwise to Members for any loss suffered in any way relating to the Trust except to the extent that the Corporations Act imposes such liability.
- (b) Subject to the Corporations Act, the liability of the Responsible Entity to any person other than a Member in respect of the Trust (including in respect of any contracts entered into as responsible entity of the Trust or in relation to any Assets) is limited to the Responsible Entity's ability to be indemnified from the Assets.

### **19.2 Indemnity in favour of Responsible Entity**

The Responsible Entity is entitled to be indemnified out of the Assets for any liability incurred by it in:

- (a) properly performing its duties in relation to the Trust; or
- (b) exercising any of its powers in the proper performance of its duties in relation to the Trust<sup>47</sup>.

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<sup>47</sup> See Section 601GA(2)

### **19.3 Liability for agents**

To the extent permitted by the Corporations Act<sup>48</sup>, and otherwise without limitation the indemnity under clause 19.2 includes any liability incurred as a result of any act or omission of a delegate or agent appointed by the Responsible Entity.

### **19.4 Indemnity continues**

The indemnity is in addition to any indemnity allowed by law. It continues to apply after the Responsible Entity retires or is removed as responsible entity of the Trust.

### **19.5 Right of indemnity not affected by unrelated breach**

Where a Liability is incurred pursuant to the proper performance of the Responsible Entity's duties in relation to the Trust or the exercise of the Responsible Entity's powers in the proper performance of its duties in relation to the Trust, the Responsible Entity may exercise any of its rights of indemnification or reimbursement out of the Assets to satisfy that Liability to any creditor or the Responsible Entity (in its capacity as responsible entity of the Trust), despite any loss the Trust may have suffered or any diminution in the value of Assets as a consequence of any unrelated act or omission by the Responsible Entity or by any person or entity acting on behalf of the Responsible Entity.

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## **20 Liability of Members**

### **20.1 Liability limited**

Subject to clauses 20.3, 20.4 and 20.6 and any separate agreement or acknowledgement by the Member, the liability of a Member is limited to the amount if any which remains unpaid in relation to the Member's subscription for their Units.

### **20.2 Member need not indemnify**

Subject to clauses 20.3 and 20.4, a Member need not indemnify the Responsible Entity if there is a deficiency in the Assets or meet the claim of any creditor of the Responsible Entity in respect of the Trust.

### **20.3 Tax or User Pays fees**

The Responsible Entity is entitled to be indemnified by a Member or a person who was at any time a Member in respect of a Taxation Amount to the extent that the Responsible Entity incurs any liability for Tax or User Pays Fees, as applicable, as a result of:

- (a) that Member's or person's action or inaction; or
- (b) an act or omission requested by that Member or person; or
- (c) any other matter arising in connection with Units held by that Member or person.

but, in the absence of any separate agreement with the Member or person, is not otherwise entitled to be indemnified by them.

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<sup>48</sup> See Sections 601FB(2) and 601GA(2)

## **20.4 Right of indemnity for tax – AMIT**

- (a) Without limiting the generality of clause 20.3, each Member is required to indemnify the Responsible Entity for:
  - (i) any Tax payable by the Responsible Entity for an AMIT Income Year in the circumstances contemplated in clause 13.9(b)(viii) which the Responsible Entity reasonably determines relates to the Member, Units held by the Member, or an attribution of taxable income made to the Member; and
  - (ii) any other costs, expenses or liabilities incurred by the Responsible Entity as a result of being liable to such Tax, and claiming on the indemnity provided by the Member under clause 20.4(a)(i).
- (b) The Responsible Entity may prescribe particular terms and conditions which apply in the event that the Responsible Entity is entitled to be indemnified by a Member under this clause 20.4, or under the AMIT Regime for an AMIT Income Year.
- (c) Each Member agrees that the Responsible Entity may, if it is entitled to be indemnified by the Member under clause 20.4, or under the AMIT Regime for an AMIT Income Year, undertake the following actions in order to satisfy that indemnity:
  - (i) deduct from any amounts owing to the Member the aggregate of any amounts which the Responsible Entity is entitled to be indemnified under clause 20.4, or under the AMIT Regime; and
  - (ii) compulsorily redeem such number of Units held by the Member which the Responsible Entity reasonably determines is sufficient to cover the amounts which the Responsible Entity is entitled to be indemnified under clause 20.4, or under the AMIT Regime.

## **20.5 Joint Members**

Joint Members are jointly and severally liable in respect of all payments including payments of Tax and User Pays Fees to which clauses 20.3 or 20.4 apply.

## **20.6 Recourse**

In the absence of separate agreement with a Member and subject to clauses 20.3 and 20.4, the recourse of the Responsible Entity and any creditor, and any person claiming through them against a Member is limited to the Assets.

## **20.7 Restrictions**

A Member:

- (a) must not interfere with any rights or powers of the Responsible Entity under this constitution;
- (b) must not exercise a right in respect of an Asset or lodge a caveat or other notice affecting an Asset or otherwise claim any interest in an Asset; and
- (c) may not require an Asset to be transferred to them.

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## **21 Remuneration and expenses of Responsible Entity**

### **21.1 Fees payable from the Assets**

The fees in clauses 21.3, 21.4 and 21.5 are payable to the Responsible Entity out of the Assets.

### **21.2 Fees subject to Corporations Act**

The fees in clauses 21.3, 21.4 and 21.5 may only be paid to the Responsible Entity to the extent they are payable in relation to the proper performance of the Responsible Entity's duties as responsible entity of the Trust.<sup>49</sup>

### **21.3 Application fee**

- (a) The Responsible Entity is entitled to be paid in respect of the processing of each application for Units which it Accepts a fee of up to 6% of the application money.
- (b) The application fee is payable from the Assets immediately after the Units are issued. When calculating the number of Units to be issued an amount equal to the GST-inclusive application fee less the corresponding input tax credit (if any) to which the Trust is entitled must first be deducted from the value of the application money or property.

### **21.4 Management fee**

The Responsible Entity is entitled to a management fee of 2% per annum of the Gross Value of the Assets calculated and accrued daily. The management fee is payable within 14 days of the end of the month, first out of income of the Trust and then out of capital.

### **21.5 Redemption fee**

- (a) The Responsible Entity is entitled to be paid in respect of each Unit redeemed a redemption fee of 6% of the Redemption Price for processing the redemption request.
- (b) The redemption fee is payable from the Assets immediately after the relevant redemption has been effected, and the amount of the GST-inclusive redemption fee attributable to the Units redeemed (less the corresponding input tax credit if any to which the Trust is entitled) is to be deducted from the amount of redemption proceeds payable to the Member or former Member whose Units have been redeemed.

### **21.6 Separate Arrangements for fees**

Subject to the Corporations Act and any ASIC Relief, the Responsible Entity may make separate arrangements from time to time with any Member concerning the payment by the Member of management fees to the Responsible Entity whether on a uniform or differential basis. Such fee must not be paid out of the Assets.

### **21.7 Adviser Monitoring Fee**

The Responsible Entity may make separate arrangements from time to time with any Member concerning the payment by the Member of adviser monitoring fees. Where such an arrangement is entered into between a Member and the Responsible Entity, the fee may be paid by the cancellation of the required

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<sup>49</sup> See section 601GA(2) and ASIC RG 134.122

number of Units held by the Member to satisfy the payment of the fee or by such other means as determined by the Responsible Entity and agreed by the Member. Adviser monitoring fees must not be paid out of the Assets.

## **21.8 Deferral and waiver of fees**

- (a) The Responsible Entity may accept lower fees than it is entitled to receive under this constitution, or may defer payment for any period and may also charge variable fees in relation to any Class or Members generally, if and to the extent permitted by the Corporations Act (including the conditions of any applicable ASIC Relief), based on bands, tiers or other criteria nominated in the relief instrument or by the Responsible Entity.
- (b) If payment is deferred, the relevant fee accrues daily until paid.

## **21.9 Expenses**

All expenses incurred by the Responsible Entity in connection with the Trust are payable or reimburseable out of the Assets but reimbursement or payment is only available in relation to the proper performance of the Responsible Entity's duties as responsible entity of the Trust. This includes expenses connected with:

- (a) this constitution and the formation of the Trust;
- (b) the preparation, review, distribution and promotion of any product disclosure statement, reference guide or offering memorandum in respect of Units or other promotion of the Trust;
- (c) the acquisition, disposal, insurance, custody (including custodian fees) and any other dealing with Assets;
- (d) any proposed acquisition, disposal or other dealing with an investment
- (e) borrowing arrangements and raising money on behalf of the Trust or guarantees in connection with the Trust, including hedging costs, and costs relating to interest rate swaps or any gearing facility;
- (f) the negotiation, amendment, variation or termination of the Management Services Agreement;
- (g) the payment of any base or performance fees and expenses payable to the Manager;
- (h) the administration or management of the Trust or its Assets and Liabilities, including expenses in connection with maintaining the Register and dealings with Units;
- (i) underwriting or managing any subscription or purchase of Units, including underwriting, offer management and brokerage fees and commission, handling fees, costs and expenses, amounts payable under indemnity or reimbursement provisions in an underwriting, offer management or broking agreement and any amounts becoming payable in respect of any breach (other than for negligence, fraud or breach of duty) by the Responsible Entity of its obligations, representations or warranties under such agreement;
- (j) convening and holding meetings of Members, the implementation of any Resolutions and communications with Members;

- (k) Tax, including any amount charged by a person making a supply to the Responsible Entity (by way of or as a reimbursement for GST) and financial institution fees;
- (l) the engagement of agents, valuers, contractors and advisers (including legal advisers), whether or not the agents, valuers, contractors or advisers are associates of the Responsible Entity;
- (m) accounting and compliance with taxation laws and procedures (whether internal expenses of the Responsible Entity or paid to third parties) and the preparation and audit of the taxation returns and accounts of the Trust;
- (n) termination of the Trust and the retirement or removal of the Responsible Entity and the appointment of a replacement;
- (o) any court proceedings, arbitration or other dispute concerning the Trust including proceedings against the Responsible Entity, except to the extent that the Responsible Entity is found by a court to be in breach of trust or to have been grossly negligent, in which case any expenses paid or reimbursed under this paragraph must be repaid;
- (p) all damages, expenses, payments, legal and other costs and disbursements incurred by the Responsible Entity in relation to or in connection with any claim, dispute or litigation ("**Claim**") arising as a result of or in connection with any untrue representation or warranty contained in any document relating to any investment by the Trust including any project document in connection with the investment and any offering document or borrowing document in connection with the Trust except where the Claim arises out of the fraud or wilful default of the Responsible Entity;
- (q) any compliance committee established by the Responsible Entity in connection with the Trust, including any fees paid to or insurance premiums<sup>50</sup> in respect of Compliance Committee Members;
- (r) while there is no compliance committee, any costs and expenses associated with the board of directors of the Responsible Entity carrying out the functions which would otherwise be carried out by a compliance committee, including any fees paid to or insurance premiums in respect of external directors whose appointment or tenure satisfies the requirements of Chapter 5C of the Corporations Act;
- (s) fees payable to any audit committee of the Trust
- (t) the preparation, implementation, amendment and audit of the compliance plan;
- (u) the cost of handling complaints from Members and resolving disputes with them, including the cost of membership of an external dispute resolution scheme; and
- (v) the cost of the Responsible Entity employing a compliance officer to carry out compliance duties under the compliance plan, in so far as the allocation of their time is attributable to matters connected with the Trust.

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<sup>50</sup> See Section 601JG

In this clause 21.9, "Expenses" includes amounts paid by the Responsible Entity to related bodies corporate for services where the expenses would have been reimburseable had they been incurred by the Responsible Entity.

#### **21.10 GST**

Except where stated otherwise, all amounts in this constitution do not include any amount payable on account of GST. If the Responsible Entity is or becomes liable to pay GST in respect of any supply under or in connection with this constitution then, in addition to any fee or other amount or consideration payable to the Responsible Entity in respect of the supply, the Responsible Entity is entitled to be paid out of the Assets an additional amount on account of GST. This amount to be calculated by multiplying the fee, amount or consideration for the part of the supply which is a taxable supply for GST purposes by the prevailing rate of GST. This clause does not apply to supplies in respect of which the relevant fees are expressed as GST inclusive in this constitution.

In relation to fees that are expressed as GST inclusive in this constitution this clause applies only to the extent to which there has been an increase in the rate of GST, so that the new GST inclusive fee is determined by converting the existing GST inclusive fee to a GST exclusive figure and multiplying it by the new prevailing rate of GST.

If the Responsible Entity is not entitled to an input tax credit in respect of the amount of any GST charged or recovered from the Responsible Entity by any person, or payable by the Responsible Entity by way of reimbursement of GST referable directly or indirectly to any supply made under or in connection with this constitution, the Responsible Entity is entitled to recover from the Trust by way of reimbursement an additional amount equivalent to the amount of the input tax.

#### **21.11 Amendment of fee provisions is contemplated**

Without limiting clause 24, the Responsible Entity has power to amend any part of this clause 21 with the effect of increasing or decreasing any amount of fees due to it, or introducing new types of fees, or to otherwise amend, delete or replace any of the provisions of this clause 21, if the Responsible Entity complies with any applicable requirements of the Corporations Act relating to:

- (a) amending the constitution of a Registered Scheme,<sup>51</sup> and
- (b) increasing fees or charges in relation to a Registered Scheme.

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## **22 Duration of the Trust**

### **22.1 Initial settlement**

The Trust commences when a person subscribes \$10 (or another amount determined by the Responsible Entity), or, at the discretion of the Responsible Entity, transfers property acceptable to the Responsible Entity for Units in the Trust and the Responsible Entity issues Units to that person in return for that payment or transfer. The Application Price for Units issued under this clause is \$1.00.

### **22.2 Termination**

The Trust terminates on the earliest of:

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<sup>51</sup> Section 601GC.

- (a) a date which the Members determine by extraordinary resolution (as defined in the Corporations Act); or
- (b) a date determined by the Responsible Entity and advised to Members by notice in writing not less than 60 days before the proposed date of termination; and
- (c) the date on which the Trust terminates in accordance with another provision of this constitution or by law.<sup>52</sup>

### **22.3 Change in taxation**

If at any time legislation is enacted the result of which is that the Responsible Entity is liable to pay any income tax or capital gains tax (other than withholding tax or tax of a similar nature) on the income of the Trust other than income not distributed to Members or under the AMIT Regime, the Responsible Entity may call a meeting of the Members to consider winding up the Trust and if by special resolution the meeting so decides, the Responsible Entity may wind up the Trust.

### **22.4 Restriction on issue and redemption of Units**

Despite any other provisions in this constitution, no Units may be issued or redeemed after the 80<sup>th</sup> anniversary of the day preceding the day the Trust commenced, unless that issue or redemption would not offend the rule against perpetuities, or any other rule of law or equity.

The perpetuity period for the purposes of section 5 of the *Perpetuities and Accumulations Act 1968 (Vic)* is the period of 80 years from the day before the commencement of the Trust. The specification of a perpetuity period in this clause 22.4 does not require that the Trust terminate on the expiration of that period.

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## **23 Procedure on termination**

### **23.1 Realisation of Assets and payment of expenses**

Following termination, the Responsible Entity must:

- (a) realise the Assets, except to the extent that it determines to distribute Assets to Members in accordance with clause 12.6 pro rata according to their holding of Units as part of the winding up of the Trust; and
- (b) make payments (or set aside estimated amounts) from the Assets to pay the Trust's expenses and liabilities, and the costs or anticipated costs of winding up the Trust. These amounts will reduce the proceeds of winding up that a Member may otherwise receive, but a Member is not required to pay any of these amounts from their own funds.<sup>53</sup>

To the extent that realisation of Assets is required, it must be completed in 180 days if practical and in any event as soon as possible after that. The Responsible Entity may, however, postpone realisation of the Assets or any Asset if the Responsible Entity reasonably considers it would be in the best interests of Members to do so, and the Responsible Entity is not responsible for any consequent loss or damage attributable to that postponement.

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<sup>52</sup> See Part 5C.9 on winding up.

<sup>53</sup> ASIC RG 134.193.



## 23.2 Auditor and liquidator

- (a) The Responsible Entity must arrange for an independent audit of the final accounts of the Trust by a registered company auditor.<sup>54</sup>
- (b) If the Trust is to be wound up because its Liabilities exceed its Assets or there is expected to be insufficient cash for the Responsible Entity to meet Liabilities from the Assets as and when they fall due, the Responsible Entity may appoint an appropriately qualified liquidator to carry out the winding up, and delegate to the liquidator the powers of the Responsible Entity under this constitution as necessary to facilitate the winding up.<sup>55</sup>

## 23.3 Distribution following termination

Subject to any rights, obligations and restrictions attaching to any particular Unit or Class which are specified in this constitution, the net proceeds of realisation, after making allowance for all Liabilities of the Trust (actual and anticipated) including entitlements of Members to a share of Income, meeting the expenses (including anticipated expenses) of the termination and taking into account Assets which are to be distributed pro rata to Members in accordance with the following formula for the amount a particular Member is to receive:

$$CE = \frac{UV}{AUV}$$

where

CE is the proportion of the distribution to which the Member is entitled;

UV is the sum of the Redemption Price for all Units held by the Member in the Trust at the date of distribution calculated by:

- (i) disregarding clause 8.2(a);
- (ii) determining each of the variables in clauses 8.1(a) and clause 8.1(b) (whichever is applicable) at the date of distribution; and
- (iii) assuming all Units held by the Member at the relevant time were to be redeemed at the date of distribution;

AUV is the aggregate of the Redemption Price for all Units on issue in the Trust at the date of distribution calculated by:

- (i) disregarding clause 8.2(a);
- (ii) determining each of the variables in clause 8.1(a) and clause 8.1(b) (whichever is applicable) at the date of distribution; and
- (iii) assuming all Units held by the Member at the relevant time were to be redeemed at the date of distribution.

The Responsible Entity may distribute any Assets and the net proceeds of realisation in instalments.

<sup>54</sup> ASIC RG 134.201, 134.202.

<sup>55</sup> See ASIC RG 134.199.

## 23.4 Provisions continue to apply

Subject to the Corporations Act and this constitution, the provisions of this constitution continue to apply from the date of termination until the date of final distribution under clause 23.3, but during that period:

- (a) the Responsible Entity may not accept any applications for Units from a person who is not an existing Member and the Responsible Entity is under no obligation to consider or process redemption requests received; and
- (b) the Responsible Entity may not accumulate an amount under clause 11.3 for the last Distribution Period of the Trust.

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## 24 Amendments to this constitution

### 24.1 Responsible Entity may amend

Subject to the Corporations Act<sup>56</sup>, this constitution may be amended:

- (a) by Resolution;<sup>57</sup> or
- (b) by deed executed by the Responsible Entity.

If the constitution is amended by Resolution, the Responsible Entity may give effect to the amendments by executing a supplemental deed.

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## 25 Regulatory provisions and paramountcy

### 25.1 Corporations Act and ASIC Relief

- (a) If the Corporations Act requires that this constitution contain certain provisions, or if ASIC Class Order [CO 13/655] or any other ASIC Relief on which the Responsible Entity has determined it wishes to rely or which is expressly applicable to the Trust and the Responsible Entity requires provisions to a certain effect to be contained in this constitution in order for the ASIC Relief to apply ("**Required Provisions**"); or
- (b) if any part of this constitution (a "**Required Part**") is included to comply with the requirements of the Corporations Act or ASIC ("**Regulatory Requirement**") and that Regulatory Requirement ceases or changes,

then, to the extent the Corporations Act allows, this constitution is taken to be amended so that the Required Provisions are included as separate provisions, or the Required Part is deleted or amended to reflect the amended Regulatory Requirement. The Required Provisions prevail over any other provisions of this constitution to the extent of any inconsistency.

The Members:

- (i) authorise the Responsible Entity to make the amendments referred to in this clause 25.1 in a deed and, if required, to lodge it with ASIC; and
- (ii) agree that, subject to the Corporations Act, their rights under this constitution do not include or extend to a right not to have this

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<sup>56</sup> See Section 601GC for power to amend the constitution. The amendment cannot take effect until a copy of the modification is lodged with the ASIC

<sup>57</sup> The required majority under section 601GC(1)(a) is 75%.

constitution amended to comply with a Regulatory Requirement or to include Required Provisions.

Changes in the text of the constitution to which this clause 25.1 applies are made pursuant to the power in clause 24.1, but in respect of those changes, the requirements of clause 24.1 are to be read subject to this clause 25.1.

## **25.2 Paramourncy of provisions**

Subject to the Corporations Act, clause 25.1 and provisions taken to be included or amended under it prevail over other provisions of this constitution to the extent of any inconsistency.

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## **26 Compliance committee**

If any Compliance Committee Member incurs a liability in that capacity in good faith, the Compliance Committee Member is entitled to be indemnified out of the Assets in respect of that liability to the extent permitted by the Corporations Act<sup>58</sup>.

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## **27 Complaints**

If a Member or former Member submits to the Responsible Entity a Complaint, in relation to the Trust, the Responsible Entity:

- (a) must, if the Member or former Member is a Retail Client, comply with the requirements of section 912A(2) of the corporations Act applicable to the Complaint;<sup>59</sup> and
- (b) in respect of a Complaint from a Member or former Member who is not a Retail Client:<sup>60</sup>
  - (i) must acknowledge receipt of the Complaint as soon as possible and in any event within 14 days from receipt;<sup>61</sup>
  - (ii) must ensure that the Complaint receives proper consideration resulting in a determination by a person or body designated by the Responsible Entity as appropriate to handle complaints;
  - (iii) where the Complaint relates to an error which is capable of being corrected without affecting the rights of third parties, act in good faith to deal with the Complaint by endeavouring to correct the error;
  - (iv) may give any of the following remedies to the complainant:
    - (A) information and explanation regarding the circumstances giving rise to the Complaint;

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<sup>58</sup> See section 601JF.

<sup>59</sup> See ASIC RG 134.336.

<sup>60</sup> The Responsible Entity may treat retail and wholesale clients differently for this purpose – see RG 134.146 and [CO 13/656].

<sup>61</sup> Australian compliance standard AS ISO 10002 – 206 was adopted in ASIC RG 165 (for financial services licensees) effective 1 January 2010. It states that the provider should “aim” to respond to complaints immediately. The Responsible Entity may wish to include this in their complaints handling policy.

- (B) an apology; or
  - (C) compensation for loss incurred by the Member or former Member as a direct result of any breach; and
- (v) must communicate to the complainant as soon as practicable and in any event not more than 45 days after receipt by the Responsible Entity of the Complaint:
  - (A) the determination in relation to the Complaint;
  - (B) any remedies available to the Member or former Member; and
  - (C) information regarding any further avenue for complaint.

**EXECUTED** as a deed poll<sup>62</sup>

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<sup>62</sup> See ASIC RG 134.209.

# Constitution of the Watermark Absolute Return Fund

## Schedule 1 – Finding list – Corporations Act

This list is included to assist ASIC in identifying the provisions in this constitution which satisfy the requirements of the Corporations Act for constitutions of registered managed investment schemes.

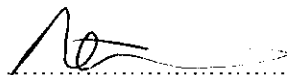
| Corporations Act | Constitution              |
|------------------|---------------------------|
| 601GA            |                           |
| (1)(a)           | 6.1 - 6.4                 |
| (1)(b)           | 13.1 - 13.3               |
| (1)(c)           | 27                        |
| (1)(d)           | 23                        |
| (2)              | 19.2 - 19.5, 21.1 - 21.11 |
| (3)              | 13.2, 13.3                |
| (4)(a)           | Not Applicable            |
| (4)(b)           | Not Applicable            |
| (4)(c)           | 9.8 - 9.11, 8.1 - 8.4     |
| 601GB            | 1.4                       |

# Constitution of the Watermark Absolute Return Fund

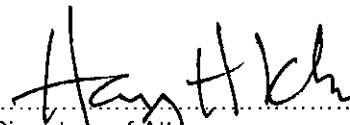
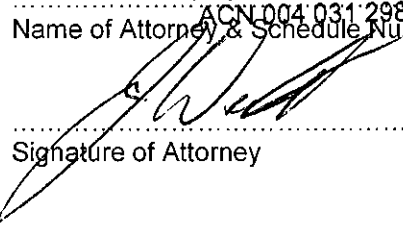
Signing page

DATED: 18/01/2019

EXECUTED by EQUITY TRUSTEES  
LIMITED ACN 004 031 298 by its  
attorneys under Power of Attorney  
dated 27<sup>th</sup> May 2016 in the presence of:

  
.....  
Signature of witness

REBECCA MCGRATH  
.....  
(Print name)

  
.....  
Signature of Attorney  
**Harvey Hillary Kalman**  
Authorised Person - Schedule II  
Equity Trustees Limited  
ACN 004 031 298  
.....  
Name of Attorney & Schedule Number  
  
.....  
Signature of Attorney  
**Janine West**  
Authorised Person - Schedule II  
Equity Trustees Limited  
ACN - 004 031 298

**Rob Ferguson & Malcolm McComas**  
**Australian Leaders Fund Limited – 2020 AGM to be held on 5 March 2021**  
**Members' Statement for distribution under Section 249P of Corporations Act 2001 (Cth)**

In August 2020, we were both nominated for election to the board of Australian Leaders Fund Limited (ALF) by a group of shareholders holding 5.6% of ALF. Shortly thereafter, we went public with a campaign to change the direction of ALF and improve corporate governance, with the intention of reducing the substantial discount between the share price that ALF had traded at prior to our actions (86c) and NTA (then \$1.05). On 23 September, we published a half page memo to the directors in the Australian Financial Review and at the same time mailed a detailed 8 page letter to the top 2,000 ALF shareholders.

In late September, ALF responded by announcing plans to convert to an unlisted unit trust via a Scheme of Arrangement, offering redemptions at NTA. The ALF share price is now trading at around \$1.02, compared to the latest NTA after tax of \$1.08. This 18% uplift in value since our intervention is good news for all shareholders. The not so good news is that ALF negotiated to pay the Manager a \$2.5m contract tear-up fee and a 2 cents early redemption tax, which spread at today's price knocks about 3.3 cents off the NTA. Nevertheless, we don't think we should seek perfection, but rather a near to perfect result, as we are feeling that most of you want to move on.

We as shareholders all have future decisions to make if, as we expect, the Scheme of Arrangement is approved. The decision to sell on market, to redeem after the Scheme is implemented or to hold on for a further period to recover the 2 cent exit tax is an issue for you to consider. We plan to redeem units as soon as possible after the Scheme is implemented, or to sell shares on market.

If shareholders approve the Scheme at the general meeting of shareholders currently scheduled for Friday 5 March 2021, we will have achieved our primary objectives. At that time, there will be no need for us to stand for election and we propose to withdraw our nominations if the Scheme is approved. If shareholders do not approve the Scheme, we will stand for election and seek to bring about some changes to the way in which ALF is managed, for the benefit of all shareholders.

**Rob Ferguson** has had extensive corporate finance experience. He was managing director of BT Australia between 1985 and 1999. In recent years, he has been a director of Westfield Holdings, GPT Group and Primary Healthcare (now Healius). He has had a substantial shareholding in ALF for many years. **Malcolm McComas** has had a prominent career in corporate finance and law for 30 years, working in leadership roles at County NatWest (now Citi) as head of investment banking and Grant Samuel as a director. He is also a shareholder in ALF and a director of several ASX companies.

*We seek your vote in support at the ALF 2020 annual general meeting, to ensure there are a majority of truly independent directors on our Board.*

**Rob Ferguson**  
**28 January 2021**

**Malcolm McComas**