

# Additional Information Document

INVESTSMART

## Intelligent Investor Australian Small Companies Fund

Issue date: 19 July 2017

Updated: 28 June 2019

Intelligent Investor  
Australian Small  
Companies Fund  
ARSN 620 030 819

Issued By: InvestSMART Funds  
Management Limited ACN 067 751 759  
AFS licence 246441 (Responsible Entity)

Investment Manager:  
Intelligent Investor Holdings Pty Ltd  
ACN 109 360 983 (Investment Manager)

### IMPORTANT INFORMATION

The information in this document forms part of the Product Disclosure Statement (PDS): Intelligent Investor Australian Small Companies Fund ARSN 620 030 819, 19 July 2017.

### Contents

1. Fund overview
2. Risks of managed investment schemes
3. Fees and costs
4. Tax
5. Distributions
6. Other important information
7. Communication
8. Contact details

### 1. FUND OVERVIEW

The Fund's investment objective is to outperform the S&P/ASX Small Ordinaries Accumulation Index (Benchmark) over rolling five year periods (after fees and expenses but before taxes) by focusing on listed shares of smaller companies in Australia and New Zealand.

The objective is not intended to be a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. Please note that while we aim to achieve the objective, the objective and returns are not guaranteed.

#### 1.1 INVESTMENT STRATEGY

The Investment Strategy is to invest in a portfolio of Australian listed companies with a market capitalisation of less than the largest company in the S&P/ASX Small Ordinaries Index, at the time of making the investment. The portfolio will primarily consist of companies with a market capitalisation of greater than \$100 million, though this may contain companies that are smaller.

The investments will be actively managed and selected at the discretion of the Investment Manager based on research undertaken by the Intelligent Investor research team. The Intelligent Investor approach is buying and holding shares with market prices at material discounts to their estimated value. Value is defined as the net present value of future cash flows though, given there can be difficulties in estimating future cash flows, in practice a number of other valuation measures are used.

The Investment Manager will not use derivatives, borrow money and may not short sell securities.

The net asset allocation ranges of the Fund's investments are:

| Asset class         | Exposure (% of net assets) |
|---------------------|----------------------------|
| Australian Equities | 50% - 100%                 |
| Cash                | 0% - 50%                   |

The Investment Manager will not automatically sell an investment, where their capitalisation has grown such that it is included in the S&P/ASX 100 Index, if that company continues to meet the investment criteria of value.

#### 1.2 LABOUR STANDARDS OR ENVIRONMENTAL, SOCIAL OR ETHICAL CONSIDERATIONS

Intelligent Investor has neither a predetermined view, nor designated methodology, for taking labour standards or environmental, social and ethical considerations into account in the selection, realisation and retention of the Fund's investments. These aforementioned factors may only come into consideration when they present an operating or financial risk to the business.

## **2. RISKS OF MANAGED INVESTMENT SCHEMES**

In addition to the significant risks for the Fund set out in Section 4, 'Risks', of the PDS, the following risks are specific to the Fund.

### **Manager risk**

An investment in the Fund means that an investor is delegating their control over relevant investment decisions to InvestSMART and Intelligent Investor. How the Fund performs depends partly on the performance of InvestSMART as responsible entity and Intelligent Investor as investment manager. In addition, the Fund is newly formed and has no operating history. There is a risk that the Fund will not achieve its investment objective. The past investment performance of the Responsible Entity and the Investment Manager and their key personnel cannot be relied upon as an indicator of future performance or results of the Fund.

### **Counterparty risk**

The Fund is exposed to the credit risks of the Custodian and other counterparties. Should a counterparty go into administration/liquidation the Fund may lose some or all its assets. These risks are managed by ensuring that the assets of the Fund are held in segregated accounts.

### **Operational risk**

Some counterparties (which may include the Issuer and its related entities) hold the financial and unit holder records for the Fund, and provide the platform for the execution of the Fund's securities trading. There is a risk that these counterparties may fail, may fail to accurately price the Fund's Units, or properly retain and update the Fund's or investors' investment interests on a timely basis, or properly conduct and record the securities trading of the Fund. This may result in some short-term liquidity or other material constraints on the Fund or Issuer, and a loss to unit holders. A risk of fraud also exists and can never be eliminated. These risks are mitigated by such things as segregation of functions, segregation of assets, dealing with reputable counterparties, annual financial and compliance audit, and other measures.

### **General**

An investment in the Fund is governed by the terms of the Constitution and the PDS, each as amended from time to time. If the Fund size falls below an economic level, and if it is considered by the Responsible Entity (at the Responsible Entity's sole discretion) to be in the best interests of Unitholders, or if any material service or investment contract terminates and cannot be replaced to our satisfaction, we have the right to close the Fund, and return your remaining investment to you. InvestSMART will manage these risks by monitoring the Fund and acting in Unitholders' interests.

## **3. FEES AND COSTS**

We will give you at least 30 days' written notice of any change to the fees payable. In addition to the costs mentioned in the PDS, the following fees may be applied:

### **3.1 DIFFERENTIAL FEES**

InvestSMART may negotiate reduced management fees on an individual basis as permitted by the Corporations Act and ASIC relief. By way of example, InvestSMART may negotiate reduced fees with wholesale investors and professional investors as defined in the Corporations Act including Investor Directed Portfolio Service (IDPS) investors.

### **3.2 RELATED PARTY TRANSACTION**

InvestSMART, Intelligent Investor or a related party may also provide other services to the Fund or the investors in the future such as management services. Should that occur, InvestSMART or the related party will charge fees for those services at commercial market rates. Member approval was not sought for this transaction.

### **3.3 ADDITIONAL ADVISER FEES**

Although this is not paid from the Fund, investors may agree on additional fees to be paid to their financial adviser.

### **3.4 INDIRECT INVESTORS**

If you are investing via an IDPS, fees and expenses applicable to the IDPS (and set out in the IDPS offer document or client agreement) are payable in addition to the fees and expenses stated in this PDS. Indirect investors should contact their IDPS operator if they have any questions.

### 3.5. EXAMPLE OF HOW THE PERFORMANCE FEE IS CALCULATED

An example of how the performance fee is calculated is set out below. The example is based on the following assumptions:

- (a) Calculation Period – 1 July 2017 to 30 June 2018.
- (b) Unit price (and high watermark) as at 1 July 2017 – \$1.50.
- (c) Distributions during the Calculation Period – \$0.02 per Unit.
- (d) Unit price as at 30 June 2018 (after deduction of the Management Fee) – \$1.75.
- (g) S&P/ASX Small Ordinaries Accumulation Index return over the Calculation Period – 10.0%.
- (f) RBA Cash rate return over the Calculation Period is 2.0%.

In this scenario, the Investment Manager would be entitled to receive a performance fee, as the growth in the NAV per Unit over the Calculation Period is greater than the higher of the S&P/ASX Small Ordinaries Accumulation Index and the RBA Cash rate. The performance fee would be calculated as follows:

$$10.25\% \times (\$0.25 + \$0.02 - \$0.15) = \$0.01023 \text{ per Unit}$$

It is not possible to estimate the amount of performance fees which would be payable in a year and this is not a forecast or simulation of the Fund's returns, nor is it a reference to past performance. The actual Fund returns may be materially different from what is shown in the example. The example may help Investors decide if the Fund is a suitable investment.

### 3.6 GST

Unless otherwise stated, all fees and costs in this section and in Section 6 of the PDS are quoted inclusive of any GST and net of any input tax credits (ITCs) or reduced input tax credits (RITCs) that are expected to be available to the Fund. See Section 4 below.

### 3.7 BUY SELL SPREAD – FURTHER INFORMATION

The buy-sell spread reflects the estimated transaction costs associated with buying and selling the assets of the Fund when investors invest in or withdraw from the Fund. The buy-sell spread is an additional cost to the investor but it is included in the unit price and incurred when an investor invests in or withdraws from the Fund and is not charged separately to the investor. The Constitution allows us to change these costs, and we may do without notice.

As at the date of this PDS the buy- sell spread of 0.5% is applicable. The buy-sell spread helps to achieve equity between investors by requiring the transacting investor(s) to bear a charge which is paid into the Fund and goes towards the Fund's costs of buying and selling as a result of their transaction(s).

### 3.8 WAIVER OR DEFERRAL OF FEES

At our discretion, we may accept lower fees than we are entitled to receive, or may defer payment of those fees for a period. If payment is deferred, then the fees will accrue until paid.

## 4. TAX

### Taxation treatment of your investment

Further to Section 7 of the PDS, this tax information is intended to be a brief guide only for Australian resident investors who hold their units in the Fund on capital account. It does not take into account specific circumstances. It should also not be relied upon as a complete statement of the Australian income tax laws. Discussion of Australian tax law is current as at the date of preparation of the relevant PDS. As Australian tax law is complex and may change and, as the tax treatment applicable to particular investors may differ, all potential investors should satisfy themselves of possible consequences by consulting their own tax advisers.

## Australian investors

### Distributions

The Fund's assessable income may include distributions from securities, capital gains and interest income. This assessable income will be reduced by any available deductions. Under existing tax law, provided the Fund distributes all net taxable income of the Fund to investors, the Fund should generally not be liable to pay tax in respect of the Fund. Each Australian resident investor will be required to include in their assessable income the proportionate share of the distribution income which can be made up of:

- (a) assessable income, such as dividends, foreign income and interest;
- (b) net capital gains, including discount and concessional components;
- (c) tax credits, such as franking credits attached to dividend income and credits for tax paid on foreign income; and
- (d) non-assessable income, which may not need to be included in your tax return but will generally reduce the cost base of your investments for capital gains tax (CGT) purposes.

The Fund has made, or intends to make, the managed investment trust (MIT) capital gains tax (CGT) election, and subject to continuing to satisfy the eligibility requirements to be a MIT for an income year, will hold its eligible assets (primarily shares, units and real property) on capital account. Whilst the Fund continues to satisfy the MIT eligibility requirements, certain investors may obtain the benefit of the CGT discount and other tax concessions (where applicable) on distributions of capital gains they may receive.

The Attribution Managed Investment Trust (AMIT) regime, which was brought in to introduce new concessional tax rules for managed investment trusts, includes the following measures:

- (a) an attribution method for allocating taxable income to investors, which is independent of the amount of income distributed to them;
- (b) clarification that income distributed to investors retains the tax character it had in the hands of the Fund;

- (c) an ability for under-estimations and over-estimations of amounts at the trust level to be carried forward and dealt with in the year in which they are discovered;
- (d) both upwards and downwards adjustments to investors' cost base for CGT purposes and cost for revenue purposes in specified circumstances;
- (e) clarification of the treatment of tax deferred distributions; and
- (f) deemed fixed trust treatment.

The Fund expects to become an AMIT from 1 July 2019.

### Disposal of units

A taxable capital gain or loss may be realised in the event that units in the Fund are withdrawn or otherwise disposed of. Resident individuals, trusts or complying superannuation entities, who have held units for at least 12 months prior to disposal or redemption, may be entitled to discount capital gains treatment. The CGT discount is 50% for an investor that is a resident individual or trust, and 33.3% for an investor that is a complying superannuation fund.

### Foreign income

The Fund may derive income from sources in New Zealand or other foreign countries. An investor's share of the gross foreign income will be treated as foreign income in the investor's hands. The investor may be entitled to a foreign income tax offset for foreign tax paid by the Fund in respect of the foreign income received by the Fund.

### Foreign Account Tax Compliance Act

Under the Foreign Account Tax Compliance Act ("FATCA"), InvestSMART is deemed to be a "foreign financial institution" and is required to obtain and disclose information about certain US and US-owned investors. InvestSMART may request investors to provide certain information about themselves in order to comply with its FATCA obligations ("FATCA Information"). To the extent that all FATCA Information is obtained, imposition of US withholding tax on payments of US income or gross proceeds from the sale of certain US securities shall not apply to the Fund. Although InvestSMART attempts to take all reasonable steps to comply with its FATCA obligations and to avoid the imposition of this withholding tax, this outcome is not guaranteed.

Under the terms of the intergovernmental agreement between the US and Australian governments, InvestSMART may provide FATCA Information to the Australian Taxation Office. InvestSMART may use your personal information to comply with FATCA, and may contact investors if it requires additional information to comply with its FATCA obligations.

### **GST**

The issue and withdrawal of units in the Fund is not subject to GST. However, fees and expenses incurred by the Fund, such as management fees, will attract GST at the rate of 10%. Given the nature of the activities of the Fund, the Fund will not be entitled to claim input tax credits for the full amount of the GST incurred.

However, for the majority of the expenses, a Reduced Input Tax Credit ("RITC") of 75% or 55% (depending on the nature of the expense) of the GST paid may be claimed. Any unclaimable GST charge on fees and expenses is incorporated in the management costs for the Fund.

### **Non-resident investors**

If a non-resident investor is entitled to taxable income of the Fund, the investor may be subject to Australian tax at the rates applicable to non-residents. If you are a non-resident, you may be entitled to a credit for Australian income tax paid by InvestSMART on your behalf in respect of your tax liability.

Generally, if the Fund qualifies as a MIT under the current rules, distributions of amounts from the taxable income of the Fund, other than dividends, interest, royalties (each of which may be subject to withholding tax), foreign sourced income and capital gains on assets which are not 'taxable Australian property', will be subject to a final withholding tax. The rate of final withholding will be 15% if the investor is a resident of a country which has an information exchange agreement with Australia, and 30% in other cases. Non-residents and temporary residents are generally not subject to tax on capital gains arising on assets which are not 'taxable Australian property'. Generally, a unit will not be taxable Australian property for this purpose, unless the investor has (with associates) a 10% or more interest in the Fund and more than 50% of the market value of the Fund's assets are attributable to Australian real property.

A non-final withholding tax on acquisitions of certain 'taxable Australian property' from non-residents and persons taken to be non-residents applies from 1 July 2017. Broadly, the purchaser of the relevant 'taxable Australian property' is required to pay 10% of the purchase price to the ATO on or before the settlement date unless an exemption applies or the ATO agrees to vary the amount. We recommend that non-resident and temporary resident investors consult their tax adviser.

### **Providing a Tax File Number (TFN)**

It is not compulsory for investors to quote their TFN, ABN, or exemption details. However, should an investor choose not to, the Responsible Entity is required to deduct tax from an investor's distributions at the maximum personal rate (plus the Medicare levy and any other applicable levy). Collection of TFNs is permitted by taxation and privacy legislation. You may be able to claim a credit in your tax return for any TFN/ABN tax withheld.

## **5. DISTRIBUTIONS**

Unit prices will normally fall after the end of each distribution period. Consequently, if you invest just before the end of a distribution period, some of your capital may be returned to you as income in the form of a distribution. The Fund will generally pay a distribution to investors annually (as at 30 June of each year), but it may do so more frequently at the discretion of the Responsible Entity. The distribution will comprise of income earned by the Fund (such as dividends received from shares, and interest) less expenses incurred by the Fund (such as Management Costs) plus net capital gains made on the sale of shares or other investments held. If there is no net income or net capital gains earned in a particular year, the Fund may not pay a distribution in respect of that year. In some circumstances, the Fund may distribute a payment out of capital in addition to, or instead of, a distribution of net income or net capital gains.

The distribution investors may receive will be based on the number of Units they hold at the nominated record date. It is not pro-rated according to the time that investors have held their Units. Distributions will be paid directly into investors' Australian dollar bank accounts.

## Reinvestment

Investors may elect to reinvest their distributions. The number of Units issued for reinvested distributions is determined by the net asset value (adjusted by any distribution payable) and the number of Units on issue in the Unit class on the last day of the distribution period. No buy spread is applied to reinvested distributions (see Section 6.2.1 of the PDS).

## 6. OTHER IMPORTANT INFORMATION

### 6.1 SUMMARY OF IMPORTANT DOCUMENTS

The following is a summary of the material documents relevant to the Fund.

#### Constitution

The constitution of the Fund, the PDS, the Corporations Act 2001 (Cth) (Corporations Act) and other laws such as the general law relating to trusts govern the relationship between investors and InvestSMART Funds Management Limited ACN 067 751 759, AFSL 246441 (InvestSMART) as responsible entity of the Fund.

A number of the provisions of the Fund's constitution have been dealt with elsewhere in the PDS. Other important provisions of the constitution are set out below. A copy of the Fund's constitution can be obtained from ASIC, or can be requested by contacting InvestSMART on 1300 880 160. The constitution establishes the Fund and sets out the basis upon which InvestSMART is appointed responsible entity of the Fund. The responsible entity or the appointed custodian always holds the assets of the Fund on trust for the investors subject to the provisions of the constitution and the Corporations Act.

Generally the constitution:

- defines investors' rights to withdraw from the Fund;
- defines what investors are entitled to receive when withdrawing from the Fund;
- defines when the Fund may be wound up and what investors are entitled to receive on winding up; and
- states that an investor's liability is generally limited to the amount, if any, which remains unpaid on that investor's units, however higher courts are yet to determine the effectiveness of these types of provisions.

As responsible entity of the Fund, the constitution:

- allows InvestSMART to refuse applications for units, in whole or in part, at InvestSMART's discretion and without giving reasons;
- allows InvestSMART to set a minimum investment to be made in the Fund;
- provides that, unless the Corporations Act imposes liability, InvestSMART is not liable in contract, tort or otherwise to unitholders for any loss suffered in any way relating to the Fund; and
- allows InvestSMART to change the Fund's constitution, but only with investors' approval if the change would adversely affect the rights of investors.

#### Compliance plan and compliance committee

The compliance plan sets out the measures that InvestSMART applies in operating the Fund to ensure that it complies with the provisions of the Corporations Act and the Fund's constitution. Each financial year the compliance plan is independently audited as required by the Corporations Act, and a copy of the auditor's report is lodged with ASIC. InvestSMART has a compliance committee with a majority of external members.

The functions of the compliance committee include, amongst other duties:

- assessing the adequacy of the compliance plan and recommending any changes; and
- monitoring InvestSMART's compliance with the compliance plan and reporting findings to InvestSMART.

#### Investment Management Agreement

The Investment Management Agreement is between the Investment Manager and the Responsible Entity under which the Investment Manager provides investment management services to the Fund. The Investment Management Agreement contains provisions dealing with matters such as the Investment Manager's obligations to report to the Responsible Entity, and the agreement sets out the fees payable to the Investment Manager for its services. The Investment Management Agreement will remain in force until the Fund is wound up, unless the agreement is terminated earlier in accordance with its provisions. The agreement can be terminated

by the Responsible Entity if the Investment Manager is in material breach of the agreement, and that breach has not been remedied after a certain time. There are also provisions allowing the Responsible Entity to terminate if, for example, the Investment Manager becomes insolvent. The Investment Manager and the Responsible Entity are related parties. A copy of the Investment Management Agreement can be obtained by calling InvestSMART on 1300 880 160.

### **Custody Agreement**

Mainstream Fund Services Pty Limited (Mainstream) is the custodian of the fund, and currently National Australian Bank Limited (ABN 12 004 044 937) acts as the global sub custodian for Mainstream. As Custodian, Mainstream will safe-keep the assets of the Fund, collect the income of the Fund's assets and act on the Responsible Entity's directions to settle the Fund's trades. Mainstream does not make investment decisions in respect of the Fund's assets that it holds. The Custody agreement can be terminated on 90 days' notice.

### **6.2 PRIVACY**

In applying to invest, you are providing both us and the Investment Manager with certain personal details (your name, address etc). This information is used to establish and manage that investment for you.

Under the Privacy Act 1988 (Cth), you can access the personal information held about you, except in limited circumstances. Please let us know if you think the information is inaccurate, incomplete or out of date. You can also tell us at any time not to pass on your personal information by advising us in writing. If you do not provide us with your contact details and other information, then we may not be able to process your application to invest.

Under various laws and regulatory requirements, we may have to pass-on certain information to other organisations, such as the Australian Tax Office or the Australian Transaction Reports and Analysis Centre (AUSTRAC). By applying to invest, you give us and the Investment Manager permission to pass information we each hold about you to other companies which are involved in helping us administer the Fund, or where they require it for the purposes of compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) or in connection with the holding of Application Money. The Investment Manager may also use your information to provide you with details of future investment offers made by it or the Responsible Entity.

### **6.3 UNIT PRICING POLICY**

InvestSMART's Unit Pricing Discretions Policy provides further information about how it calculates NAV per Unit. The policy complies with ASIC requirements. The Responsible Entity will observe this policy in relation to the calculation of the NAV per Unit and will record any exercise of discretion outside the scope of the policy. Investors can request a copy of the policy free of charge by calling InvestSMART on 1300 880 160.

### **6.4 CONTINUOUS DISCLOSURE**

If the Fund has 100 or more Investors, then it becomes a disclosing entity for the purposes of the Corporations Act and will be subject to regular reporting and disclosure obligations. As at the date of the PDS, the Fund is not a disclosing entity. We will follow ASIC's good practice guidance in satisfying our continuous disclosure obligations via placing information and continuous disclosure notices for the Fund at [www.investsmart.com.au](http://www.investsmart.com.au). Copies of notices can be obtained by calling InvestSMART on 1300 880 160.

### **6.5 RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST**

The Responsible Entity and the Investment Manager are related parties and have policies on proposed or potential related party transactions to ensure that any actual or potential conflicts of interest are identified and appropriately dealt with. Copies of these policies on related party transactions are available by contacting InvestSMART on 1300 880 160.

## **7. COMMUNICATION**

### **Further information**

Further information about the Fund is also available online at [www.investsmart.com.au](http://www.investsmart.com.au). This information will include performance reports and commentary on the Fund. Please note that past performance is not a reliable indicator of future performance and should not be relied on when you consider investing in the Fund.

### Investor communications

We will provide Investors with confirmation of all transactions and we will provide Investors with the following information free of charge, on request:

- The Fund's annual financial reports.
- A paper copy of any updated information.
- Any replacement PDS or updated incorporated information.

### **8. CONTACT DETAILS**

For information about investing in the Fund, please contact us.

#### **Responsible Entity**

InvestSMART Funds Management Limited  
Level 9, 37 York Street  
Sydney NSW 2000  
Telephone: (02) 8305 6000

#### **Investment Manager**

Intelligent Investor Holdings Pty Ltd  
Level 9, 37 York Street  
Sydney NSW 2000  
Telephone: (02) 8305 6000

#### **Custodian and Fund Administrator**

Mainstream Fund Services Pty Ltd  
51–57 Pitt Street  
Sydney NSW 2000  
Telephone: (02) 8259 8864

#### **Unit Registry**

Registry Direct Ltd.  
Level 6, 2 Russell Street  
Melbourne VIC 3000  
Telephone: (03) 8687 2262