



**WATERMARK**  
FUNDS MANAGEMENT

**Watermark Global Leaders Fund Limited**  
**ACN 614 536 560**

# Prospectus

Offer of up to 100,000,000 fully paid ordinary Shares and Options (with the ability to accept Applications for up to a further 36,363,636 Shares and Options in Oversubscriptions).

*The Offer includes a Priority Allocation of up to 27,272,727 fully paid ordinary Shares and Options and is available to eligible investors in one or more of Australian Leaders Fund Limited, Watermark Market Neutral Fund Limited and Watermark Market Neutral Trust.*

## Important Information

This Prospectus contains important information for you as a prospective investor and requires your immediate attention. It should be read in its entirety. If you have any questions as to its contents or the course you should follow, please consult your stockbroker, accountant, solicitor or other professional adviser immediately.

## Authorised Intermediary and Joint Lead Manager:



**TAYLOR COLLISON**

AFS Licence 247083

## Joint Lead Managers:

**CommSec**



AFS Licence 238814

**Morgan Stanley**

Morgan Stanley Australia Securities Limited  
AFS Licence 233741

IN ALLIANCE WITH  
**Morgans**  **CIMB**

AFS Licence 235410

**ORD MINNETT**

AFS Licence 237121

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## Important Notices

This replacement prospectus is dated 4 November 2016 and was lodged with the Australian Securities & Investments Commission (**ASIC**) on that date (**Prospectus**). This document replaces the prospectus dated 27 October 2016 that was lodged with ASIC on that date (**Original Prospectus**). This document is issued by Watermark Global Leaders Fund Limited (ACN 614 536 560) (**Company**) and is an invitation to apply for up to 100,000,000 Shares at an Application Price of \$1.10 per Share together with an entitlement to 1 Option for every 1 Share subscribed for (with each Option exercisable at \$1.10 on or before 16 November 2018) (with the ability to accept Applications for up to a further 36,363,636 Shares and Options in Oversubscriptions).

ASIC, ASX and their respective officers take no responsibility for the contents of this Prospectus.

This document is important and requires your immediate attention. It should be read in its entirety. You may wish to consult your professional adviser about its contents.

No Securities (other than Shares to be issued on the exercise of Options) will be issued on the basis of this Prospectus later than the expiry date of this Prospectus, being the date 13 months after the date of the Original Prospectus.

### ASX Listing

The Company applied within 7 days after the date of the Original Prospectus for admission to the official list of ASX (**Official List**) and for the Securities to be quoted on ASX.

The fact that ASX may admit the Company to the Official List and quote the Securities is not to be taken in any way as an indication of the merits of the Company. Neither ASX nor any of its officers takes any responsibility for the contents of this Prospectus. If granted admission to the ASX, quotation of the Securities will commence as soon as practicable after holding statements are dispatched.

The Company does not intend to issue any Securities unless and until the Securities have been granted permission to be quoted on the ASX on terms acceptable to the Company. If permission is not granted for the Securities to be quoted before the end of 3 months after the date of the Original Prospectus or such longer period permitted by the Corporations Act or with the consent of ASIC, all Application Monies received under the Prospectus will be refunded without interest to Applicants in full within the time prescribed by the Corporations Act.

### Exposure Period

Pursuant to the Corporations Act, this Prospectus is subject to an exposure period of 7 days after the date of the Original Prospectus, which may be extended by ASIC by a further period of 7 days (**Exposure Period**).

The Exposure Period enables this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus.

Application Forms received prior to the expiration of the Exposure Period will not be processed until after the Exposure Period. No preference will be conferred on Application Forms received during the Exposure Period and all Application Forms received during the Exposure Period will be treated as if they were simultaneously received on the Opening Date.

### Intermediary Authorisation

The Company does not hold an Australian Financial Services Licence (**AFSL**) under the Corporations Act. Accordingly, offers under this Prospectus will be made

under an arrangement between the Company and Taylor Collison Limited, the holder of an AFSL (**Authorised Intermediary**) under Section 911A(2)(b) of the Corporations Act. The Company will only authorise the Authorised Intermediary to make offers to people to arrange for the issue of Securities by the Company under the Prospectus and the Company will only issue Securities in accordance with such offers, if they are accepted.

The Joint Lead Managers will manage the Offer on behalf of the Company. The Joint Lead Managers are Taylor Collison Limited, Commonwealth Securities Limited, Morgans Financial Limited, Morgan Stanley Australia Securities Limited and Ord Minnett Limited (**Joint Lead Managers**).

The Authorised Intermediary's, and Joint Lead Managers' functions should not be considered as an endorsement of the Offer, nor a recommendation of the suitability of the Offer for any investor. The Joint Lead Managers do not guarantee the success or performance of the Company or the returns (if any) to be received by investors. The Joint Lead Managers are not responsible for, nor have caused the issue of, this Prospectus.

### Investment Decision

Applicants should read this Prospectus in its entirety before deciding to apply for Securities. This Prospectus does not take into account your individual investment objectives, financial situation or any of your particular needs. You should seek independent legal, financial and taxation advice before making a decision whether to invest in the Company.

An investment in this Company carries risks. An outline of some of the risks that apply to an investment in the Company is set out in Section 6. Applicants are urged to consider this Section of the Prospectus carefully before deciding to apply for Securities.

No person is authorised to give any information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained or taken to be contained may not be relied on as having been authorised by the Company in connection with the Offer.

### Forward-looking Statements

This Prospectus contains forward-looking statements. Forward-looking statements are not based on historical facts, but are based on current expectations of future results or events. These forward-looking statements are subject to risks, uncertainties and assumptions, which could cause actual results or events to differ materially from the expectations described in such forward-looking statements.

While the Company believes that the expectations reflected in the forward-looking statements in this Prospectus are reasonable, no assurance can be given that such expectations will prove to be correct. The risk factors set out in Section 6, as well as other matters as yet not known to the Company or not currently considered material by the Company, may cause actual results or events to be materially different from those expressed, implied or projected in any forward looking statements. Any forward-looking statement contained in this Prospectus is qualified by this cautionary statement.

### Offer to New Zealand Investor Warning

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 Part 9 of the Financial Markets Conduct Act

2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

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.

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.

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.

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.

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

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

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.

If you expect the financial products 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.

If the financial products are able to be traded on a financial product market and you wish to trade the financial products through that market, you will have to make arrangements for a participant in that market to sell the financial products on your behalf. If the financial product market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the financial products and trading may differ from financial product markets that operate in New Zealand.

### Prospectus

An electronic version of this Prospectus (**Electronic Prospectus**) can be downloaded from [www.wfunds.com.au](http://www.wfunds.com.au). The Offer or invitation to which the Electronic Prospectus relates is only available to persons receiving the Electronic Prospectus in Australia and New Zealand.

The Company will also send a copy of the paper Prospectus and paper Application Form free of charge, if requested before the Offer closes.

If you download the Electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by a copy of the Application Form. The Securities to which the Electronic Prospectus relates will only be issued to Applicants who complete the Application Form

accompanying the Prospectus and submit that form to the Company together with Application Monies.

### How to Apply

You can only make an Application for Securities under the Offer by completing and submitting an Application Form. You can find detailed instructions on completing the Application Form on the back of the paper Application Form. You will be provided with prompts and instructions to assist you to complete the electronic Application Form.

Applications must be for a minimum of 2,000 Shares at \$1.10 each (i.e. for a minimum subscription amount of \$2,200) and 2,000 Options. A larger number of Shares and Options may be applied for in multiples of 100 Shares and Options.

### Applications

Applications and Application Monies for Securities under the Offer received after 5:00 p.m. (Sydney time) on the Closing Date will not be accepted and will be returned to Applicants.

Applications must be accompanied by payment in Australian currency.

Cheques in respect of Applications should be made payable to "Watermark Global Leaders Fund Limited" and crossed "Not Negotiable".

No stamp duty is payable by Applicants.

### Application Forms

Completed paper Application Forms, together with Application Monies, should be forwarded to the following address:

#### By Mail

Watermark Global Leaders Fund Limited

c/- Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001

#### Hand Delivered:

Watermark Global Leaders Fund Limited

c/- Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000

Alternatively, Applicants can apply online at [www.wfunds.com.au](http://www.wfunds.com.au) and pay their Application Monies by BPAY.

### When to Apply

Completed Application Forms and Application Monies under the Offer must be received by 5:00 pm (Sydney time) on the Closing Date. The Directors may close the Offer at any time without prior notice or extend the period of the Offer in accordance with the Corporations Act.

The Directors reserve the right to allocate any lesser number of Shares and Options than those for which the Applicant has applied. Where the number of Shares allotted is fewer than the number applied for, surplus Application Monies will be refunded without interest.

### Glossary of Terms

Defined terms and abbreviations included in the text of this Prospectus are set out in Section 12.

## Highlights of the Offer

### Important Dates

|  |                  |
|--|------------------|
| Lodgement of Original Prospectus with ASIC                           | 27 October 2016  |
| End of Exposure Period   | 3 November 2016  |
| Lodgement of this Prospectus with ASIC                               | 4 November 2016  |
| Offer expected to open   | 7 November 2016  |
| Broker Firm Offer expected to close                                  | 2 December 2016  |
| Priority Allocation / General Offer expected to close (Closing Date) | 9 December 2016  |
| Expected date of allotment / date of dispatch of holding statements  | 16 December 2016 |
| Securities expected to commence trading on ASX                       | 21 December 2016 |
| Options expiry date  | 16 November 2018 |

The above dates are subject to change and are indicative only and times are references to Sydney time. The Company reserves the right to amend this indicative timetable subject to the Corporations Act and the ASX Listing Rules. In particular, the Company reserves the right to close the Offer early, extend the Closing Date or accept late Applications without notifying any recipients of the Prospectus or any Applicant.

### Key Offer Statistics

|   |   |
|---|---|
| Company   | Watermark Global Leaders Fund Limited<br>ACN 614 536 560                      |
| Proposed ASX codes  | Shares: WGF<br>Options: WGFO  |
| Securities offered  | Fully paid ordinary Shares<br>1 Option for every Share issued under the Offer |
| Minimum number of Shares and Options available under the Offer  | 36,363,636 Shares<br>36,363,636 Options                                       |
| Minimum proceeds from the Offer (before exercise of any Options)  | \$40,000,000  |
| Maximum number of Securities available under the Offer (before Oversubscriptions)   | 100,000,000 Shares<br>100,000,000 Options                                     |
| Maximum proceeds from the Offer (before Oversubscriptions and the exercise of any Options)  | \$110,000,000   |
| Maximum number of Securities available under the Offer assuming Oversubscriptions are fully subscribed (before the exercise of any Options) | 136,363,636 Shares<br>136,363,636 Options                                     |

## Key Offer Statistics

|   |               |
|---|---------------|
| Maximum proceeds from the Offer assuming Oversubscriptions are fully subscribed (before the exercise of any Options)  | \$150,000,000 |
| Application Price per Share   | \$1.10        |
| Option exercise price   | \$1.10        |
| Pro forma Net Asset Value ( <b>NAV</b> ) backing per Share if the Minimum Subscription amount is raised (based on pro forma balance sheet set out in Section 7.2).                        | \$1.073       |
| Pro forma NAV backing per Share if the Maximum Subscription amount is raised (before Oversubscriptions) (based on pro forma balance sheet set out in Section 7.2).                        | \$1.078       |
| Pro forma NAV backing per Share if the Maximum Subscription amount is raised (assuming Oversubscriptions are fully subscribed) (based on pro forma balance sheet set out in Section 7.2). | \$1.078       |

## Enquiries

Investors with questions relating to the Offer or who require additional copies of the Prospectus should contact the Company, on (02) 9252 0225 or via email to [info@wffunds.com.au](mailto:info@wffunds.com.au).

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# Chairman's Letter



WATERMARK  
FUNDS MANAGEMENT

4 November 2016

Dear Investor,

## The Offer

On behalf of the Board, I am pleased to invite you to become a Shareholder in the Watermark Global Leaders Fund Limited (**Company**).

The Company is seeking to raise a minimum of \$40,000,000 and a maximum of \$110,000,000 under the Offer, with the ability to accept oversubscriptions to raise approximately a further \$40,000,000. The issue price under the Offer is \$1.10 per Share. For every one Share issued under the Offer, Applicants will receive an attaching Option, exercisable at \$1.10 on, or before, 16 November 2018. The Offer is open to new investors and a Priority Allocation will be available to Watermark Eligible Participants, details of which are set out in Section 2.3.

The Company has been established to take advantage of opportunities to invest in a Portfolio of global listed securities, constructed in a market neutral structure.

## Why a market neutral portfolio?

The investment climate has changed profoundly since the 2008 financial crisis with economic growth stagnating in many developed economies. The Board believes the panacea of cheap money, and the abundance of excess liquidity that has resulted, has inflated asset markets with bonds, property and shares all looking expensive on historic measures. The risks that arise from high levels of indebtedness continue to intensify as the current expansion cycle matures.

Given the current environment, the Board considers there is a strong case for investing in a 'market neutral' strategy, which allows investors to profit from the mispricing of securities while limiting their exposure to market risk.

The Directors believe that a market neutral approach is well suited to international securities. The global economy and the geopolitical environment, within which it operates, are increasingly complex. A market neutral approach to investing in global securities is aimed at minimising the impact of external market forces while taking advantage of inefficiencies in the way markets price assets.

The Directors consider that an investor in international securities takes on three principal risks:

- (a) *security specific risks* tied to the financial performance of individual companies;
- (b) *market risks* linked to the prospects of foreign share markets; and
- (c) *currency risks* that arise from the foreign denomination of shares.

While security specific risks can be reduced through diversification in a well-constructed portfolio, market and currency risks are harder to manage. Traditional 'long-only' international funds are fully exposed to movements in markets and currencies. These funds typically measure risk on a relative basis, in the context of 'under-performing' the share market and construct portfolios that closely track share market indices. As a consequence, their performance is largely dependent on a rising market with security selection contributing relatively little to overall returns.

The ability to short sell (that is, selling a borrowed investment with the intention of buying it back at a later date) sets the Company apart from traditional 'long only' funds (which make investments with the expectation

that their value will appreciate), as short sales are a natural hedge for the Company's exposure to shares it has bought. This protection comes at a cost however, being that the Company may underperform a strong share market.

As the Company will hold assets (Long positions) and liabilities (Short positions) denominated in a range of foreign currencies, the Company's exposure to foreign exchange risk will also be largely hedged.

Over time, the performance of long-only funds can tend to mirror international share markets, with security selection contributing relatively little to overall performance. In contrast, the performance of the Company will depend entirely on the Manager's success in selecting individual shares to buy and sell, with far less dependence on a rising share market.

### **Managing investment risk**

Investing is about risk and return. When considering an opportunity, the Directors believe that investors should think about risk adjusted returns or how much risk they are taking to achieve the expected return.

In the Director's experience, investors focus too much on investment returns and fail to fully appreciate the attendant risks. When we talk about market inefficiency and mispricing, it is the associated risk that is often mispriced. This is particularly evident today. By way of example, the most broadly held savings instrument in Europe, 'Bunds' (German 10 year bonds) have recently traded on a yield of minus 0.18%. An investor, who buys a Bund and holds to maturity today, locks in a loss.

This is unsound as there is no compensation for duration or risk, yet banks, pension funds and central banks invest in these types of securities. This mispricing of risk is a clear manifestation of the intervention of central banks in the free working of security markets, and the extreme measures taken to encourage investors to take on risk. In the Directors' view, the risks building in these security markets are significant and should be the first consideration in any investment decision.

### **The Manager**

The Company is pleased to engage Watermark Funds Management Pty Limited as its portfolio manager. The Manager has a strong track record implementing market neutral strategies of this nature. Its flagship fund, the Australian Leaders Fund Limited (ASX:ALF), which is also a listed investment company (LIC), has been a strong performing LIC investing in Australian equities since listing in 2004. The Watermark Market Neutral Fund Limited (ASX:WMK) has also outperformed its benchmark since listing in July 2013. Past performance is not indicative of future performance and the performance of the Company could be significantly different to the historical performance of Australian Leaders Fund Limited and Watermark Market Neutral Fund Limited.

### **International Shares**

The Manager employs a fundamentally driven, security selection process based on sound investment ideas taken from the investment universe of global entities. The Manager conducts detailed analysis of global industries, seeking opportunities to invest in stronger businesses when they appear undervalued and to Short Sell weaker businesses when they appear overvalued. Investors benefit to the extent the portfolio of Long Positions comprised of securities that the Manager views as 'winners' outperforms the portfolio of Short Positions or 'losers'.

The Manager has been investing internationally since 2014 and since that time, the Manager's international investments (when taken as a whole) have outperformed the domestic investments. Past performance is not indicative of future performance. The performance of the Company's Portfolio could be significantly different to the performance of the Manager's existing international portfolios.

### **Risks with this investment**

An investment in the Company is not without risk. Important risks for investors to consider include its reliance on the Manager, particularly its ability to select investments to buy and sell (Short Sell), risks inherent in the proposed Investment Strategy (including the potential to underperform traditional 'long only' funds in strong markets) and risks associated with undertaking short selling. See Section 6 for a detailed discussion of relevant risks.

The Board recommends that you read this Prospectus in its entirety. This Prospectus provides details of the Offer and an overview of the business and activities of the Company.

On behalf of the Board, I look forward to welcoming you as a Shareholder in the Company.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Hedley', is positioned above the printed name.

**Rohan Hedley**  
Chairman

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## 1. Offer Summary

This is a summary only. This Prospectus should be read in full before making any decision to apply for Shares and Options.

| Question  | Answer  | More Information         |
|---|---|--------------------------|
| <b>A. Key investment highlights and key risks</b> |   |                          |
| What are the benefits of the Offer?               | <p>Watermark Global Leaders Fund Limited (<b>Company</b>) is an investment company investing predominantly in international listed securities. The Company's Portfolio is managed by Watermark Funds Management Pty Limited (<b>Manager</b>), a licensed financial services provider owned by an entity associated with Justin Braiiling.</p> <p>The Offer provides investors with the opportunity to invest in the Company's actively managed Portfolio and gain access to the investment experience and expertise of the Manager.</p>   | See Sections 3, 4 and 5. |
| What is the business model of the Company?        | <p>The Company aims to deliver superior returns with relatively low volatility and reduced market risk while providing capital growth and income (by way of consistent stream of dividends to Shareholders)<sup>1</sup>.</p> <p>The Manager will pursue this objective using a market neutral Investment Strategy comprising a Long and a Short Portfolio that are both roughly equal in size, each comprised of securities the Manager believes is mispriced.</p> <p>The Company has a global mandate and may invest in securities (including listed, unlisted, fixed income and certain debt securities), derivatives, currency positions, cash, and other permitted investments. Notwithstanding this broad mandate, the Company's Portfolio is expected to be predominantly comprised of Long and Short Positions in international listed securities (see Sections 3.6 and 3.7).</p> <p>The Company will profit to the extent its Long Portfolio outperforms its Short Portfolio in absolute terms over time. To the extent that the Long and Short Portfolios are balanced in size and composition (i.e. number of positions, sector and regional exposures and exposure to various risk factors), there is a natural hedge in the structure.</p> <p>In the Company's market neutral structure, the Company's capital is retained in cash and cash equivalents earning interest. The securities within the Long Portfolio will be purchased using the cash proceeds raised from short selling positions within the Short Portfolio.</p> <p>The Company and the Manager consider this to be a highly efficient way of employing its security selection skills to generate returns, while at the same time, effectively hedging market risk. If the Manager is successful, the Company has the potential to deliver consistent profits from its investment activities, largely irrespective of what happens to the broader share market.</p> | See Section 3.           |
| Will the Company pay dividends?                   | The Board's intention is to pay dividends franked to the maximum extent possible (payable at the end of the first financial year, and after that, semi-annually) to the extent permitted by law and the payment being within prudent business practices <sup>1</sup> .  | See Section 3.9          |

<sup>1</sup> The investment objectives of the Company, including the dividend objective are not forecasts. The Company may not be successful in meeting its objectives or its dividend intention.

| Question  | Answer  | More Information   |
|---|---|--|
|   | <p>The amount of any dividend will be at the discretion of the Board and will depend on a number of factors, including: the availability of profit reserves and franking credits, retained earnings, capital requirements, financial conditions and other factors that the Board deems relevant.</p>  |  |
| <p>What are the key risks associated with the business model and the Offer?</p> | <p>The Company's investment activities will expose it to a variety of risks. The key risks identified by the Company include:</p> <p>(a) <i>Manager risk</i>: The success and profitability of the Company will largely depend on the Manager's ability to manage the Portfolio in a manner that complies with the Company's objectives, strategies, policies, guidelines and permitted investments. Should the Manager become unable to perform investment management services for the Company or should there be significant key personnel changes at the Manager, the Company's investment activities may be disrupted and its performance negatively impacted. Further, if the Company does not perform well, it may be difficult to remove the Manager.</p> <p>(b) <i>Investment Strategy risk</i>: The success and profitability of the Company will largely depend upon the ability of the Manager to invest in a Portfolio that generates a return for the Company. The past performance of portfolios managed by the Manager is not a guide to future performance of the Company. There are risks inherent in the Investment Strategy that the Manager will employ for the Company.</p> <p>(c) <i>Market risk</i>: The Portfolio will be exposed to market risk. The market risk of assets in the Company's Portfolio can fluctuate as a result of market conditions. The value of the Portfolio may be impacted by factors, such as: economic conditions, interest rates, regulations, sentiment and geopolitical events as well as environmental, social and technological changes. The Manager will seek to reduce market risks to the extent possible by limiting net market exposure within the Portfolio (that is Long Positions minus Short Positions within the Portfolio) to +/-20% of the Portfolio's NAV. This also means that when the market performs strongly, the Portfolio will have little to no exposure to a positive market return as market risk is minimised. In such instances, the Portfolio may underperform traditional 'long only' funds as it will have limited correlation to the positive market movement.</p> <p>(d) <i>Share price risk</i>: While the Portfolio is largely hedged, the Company will be listed on the ASX and, as a result, the Securities will be exposed to market movements. As a result, the Share price may trade at a discount or a premium to its NTA.</p> <p>(e) <i>Foreign issuer and market risk</i>: The Company's investment objective and strategies are focused on international securities. Investments in foreign companies may be exposed to a higher degree of sovereign, political, economic, market and corporate governance risks than domestic investments.</p> <p>(f) <i>Short Selling risk</i>: There are inherent risks associated with short selling. Short selling involves borrowing securities (from the Prime Broker for a fee) that are then sold. If the price of the securities falls, then the Company can buy</p> | <p>Investors should read these risks together with the other risks described in Section 6.</p> |

| Question | Answer   | More Information |
|----------|--|------------------|
|          | <p>those securities at a lower price to transfer back to the lender of the securities. Short selling can be seen as a form of leverage and may magnify the gains and losses achieved in the Portfolio. While short selling may be used to manage certain risk exposures in the Portfolio and increase returns, it may also have a significantly increased adverse impact on its returns. Short selling exposes the Portfolio to the risk that investment flexibility could be restrained by the need to provide collateral to the securities lender and that positions may have to be liquidated at a loss and not at a time of the Manager's choosing.</p> <p>(g) <i>Liquidity risk:</i> The Portfolio and the Securities are each subject to liquidity risk as follows:</p> <ul style="list-style-type: none"> <li>○ The Company is exposed to liquidity risk in relation to the investments within its Portfolio. If a security cannot be bought or sold quickly enough to minimise potential loss, the Company may have difficulty satisfying commitments associated with financial instruments.</li> <li>○ The Company's Securities are also exposed to liquidity risk. The ability of investors in the Company to sell their Securities on the ASX will depend on the turnover or liquidity of the Securities at the time of sale. Therefore, investors may not be able to sell their Securities at the time, in the volumes or at the price they desire.</li> </ul> <p>(h) <i>Derivative risk:</i> The Company may use derivative instruments (both exchange traded derivatives and Over-the-counter derivatives) for risk management purposes and to take opportunities to increase returns. Investments in derivatives may cause losses associated with the value of the derivative failing to move in line with the underlying security or as expected. Derivative transactions may be highly volatile and can create investment leverage, which could cause the Company to lose more than the amount of assets initially contributed to the transaction.</p> <p>(i) <i>Leverage risk:</i> While the Manager does not intend to use debt to increase the scale of the Portfolio of the Company, the use of derivatives and short selling may have an effect similar to leverage in that it can magnify the gains and losses achieved in the Portfolio in a manner similar to a debt leveraged portfolio. These risks give rise to the possibility that positions may have to be liquidated at a loss and not a time of the Manager's choosing.</p> <p>(j) <i>Currency risk:</i> Investing in assets (i.e. Long Positions) denominated in a foreign currency creates an exposure to foreign currency fluctuations, which can change the value of the Portfolio measured in Australian dollars. This is true also for liabilities (Short Positions) denominated in foreign currencies. The Company will seek to manage these risks primarily using the natural hedge created by the market neutral Investment Strategy and by balancing currency exposures across the Long and Short Portfolios. Further the Investment Strategy limits net exposure to any foreign currency within the Portfolio to <math>\pm 20\%</math> of the Portfolio's NAV. See Section 3.6(d) for further detail on the Company's currency management strategies and policies.</p> |                  |

| Question  | Answer  | More Information    |
|---|---|---------------------|
|   | <p>(k) <i>Counterparty and Collateral Risk:</i> The Company uses the services of a Prime Broker to facilitate the lending of securities to short sell. Until the Manager returns a borrowed security, it will be required to maintain assets with the Prime Broker as Collateral. As such, the Company may be exposed to certain risks in respect of that Collateral.</p> <p>(l) <i>Default risk:</i> The Company will outsource key operational functions, including: investment management, custody, administration and valuation to a number of third party service providers. There is a risk that one or more of these counterparties may intentionally or unintentionally breach their obligations to the Company causing loss to the Company.</p>  |                     |
| <b>B. Key information about the Portfolio and Investment Strategy</b> |   |                     |
| What is a market neutral strategy?                                    | <p>The Company will employ a market neutral strategy endeavouring to profit from the mispricing of listed securities, investing (i.e. holding a Long Position) in securities the Manager believes are undervalued while also selling (i.e. holding a Short Position) in securities the Manager considers to be overvalued. If the Manager is successful in security selection, the Company's Long Portfolio should outperform its Short Portfolio as this mispricing is resolved over time.</p> <p>As a market neutral structure, the 'long' and 'short' segments of the Portfolio are of approximately equal value, minimising exposure to general market movements (net market exposure will typically be zero and is limited to <math>\pm 20\%</math> of the Portfolio's NAV). The Company's investment capital is retained in cash and cash equivalents, earning interest. The gross performance of the Portfolio (i.e. before any fees and expenses) will be the interest on cash at bank, plus the difference between the performance of the Long and Short Portfolios.</p> | See Section 4       |
| How will the Portfolio be constructed?                                | <p>The Company has a global mandate and may invest in securities (including listed, unlisted, fixed income and certain debt securities), derivatives, currency positions, cash, and other permitted investments (see Sections 3.7 for full details). Notwithstanding this broad mandate, the Portfolio is expected to be predominantly comprised of Long and Short Positions in international listed securities.</p> <p>The Manager will separately construct both a Long Portfolio and a Short Portfolio populated with what it considers to be the best possible investment ideas. Each portfolio will comprise a select number of securities (typically between 40 to 80 securities) that the Manager considers are mispriced.</p> <p>The Portfolio will be constructed using the Manager's investment process (set out in Section 3.4) and in accordance with investment guidelines agreed with the Company (initially being the guidelines set out in Section 3.6).</p>  | See Section 3       |
| What is the Company's leverage policy?                                | <p>The Company does not intend to borrow funds for investment.</p> <p>The Portfolio may become leveraged through the use of short selling and derivatives. Short selling and derivatives can magnify gains in the Portfolio, but will also magnify losses in a similar manner to debt leverage. With a view to managing this risk, the maximum gross exposure within the Portfolio (i.e. Long Positions</p>   | See Section 3.6(a). |

| Question   | Answer  | More Information           |
|--|---|----------------------------|
|  | <p>plus Short Positions plus derivatives) is limited to 400% of the Portfolio's NAV. Notwithstanding this maximum, the Manager expects gross exposure within the Portfolio will typically be between 150% to 300% of the Portfolio's NAV.</p> <p>It should be noted that while the Company's Portfolio may be leveraged up to 400% of its NAV, investors in the Company only have exposure to the value of their investments in the Company's Securities.</p>   |                            |
| <p>What is the Company's derivatives policy?</p>           | <p>The Company may invest in exchange traded and over-the-counter derivatives, including: options, participatory notes, futures and swaps, fixed income, currency, commodity and credit default exposures, currency forwards/contracts and related instruments.</p> <p>The Company has the following restrictions on its ability to use derivatives:</p> <p>(a) the effective exposure of all derivatives within the Portfolio may not exceed 100% of the Portfolio's NAV; and</p> <p>(b) the Portfolio's gross exposure must not exceed 400% of the Portfolio's NAV.</p> <p>For key risks to the Company associated with the collateral requirements of the derivative counterparties, please see Section 6.3.</p>   | <p>See Section 3.6(c).</p> |
| <p>Will the Company participate in short selling?</p>      | <p>Yes. Short selling is integral to the Company's Investment Strategy.</p> <p>The Manager will use short sales within the Investment Strategy to fund the acquisition of the Long Portfolio and to profit from the mispricing of overvalued securities. Furthermore, Short selling is the principal method that the Manager uses to manage market and currency risks within the Portfolio (using the natural hedge created by the market neutral structure).</p> <p>The Company is expected to engage in short selling by borrowing securities from the Prime Broker and providing collateral on the terms and conditions set out in the International Prime Brokerage Agreements (see Section 10.3 for details). Short selling may involve greater risk than buying a security, and may magnify gains in the Portfolio, but may also magnify losses. The risks associated with short selling and the ways in which the Manager seeks to mitigate those risks are set out in Sections 3.6 and 6.3.</p> | <p>See Section 3.6(b).</p> |
| <p>How will the Company manage foreign currency risks?</p> | <p>International investments create an exposure to foreign currency fluctuations, which can change the value of the investments measured in the Portfolio's base currency (Australian Dollars). It is part of the Company's Investment Strategy to manage risks created by currency exposures by balancing foreign currency exposure across the Long and Short Portfolios and through an active treasury management program.</p> <p>In the same way that the Company's net exposure to share market risk is hedged, the Portfolio's exposure to foreign exchange risks will be hedged to the extent the values of the asset (Long Position) and liability (Short Position) denominated in each foreign currency are matched.</p> <p>From time to time, net exposures to foreign currencies may arise due to unrealised gains or losses in the Portfolio; however, these</p>   | <p>See Section 3.6.</p>    |

| Question  | Answer   | More Information           |
|---|--|----------------------------|
|   | mismatches are expected to be small. Further, the Investment Strategy limits net exposure to any foreign currency within the Portfolio to $\pm 20\%$ of the Portfolio's NAV. The Manager will monitor any mismatches on a daily basis and will move a portion of the cash held with the Prime Broker (in Australian dollars) between accounts denominated in foreign currencies to further hedge these exposures.  |                            |
| What is the time frame for Portfolio construction?      | The Manager expects that the Company's Portfolio will be fully invested within 3 months of listing on the ASX. However, the pace at which investments are made will be dependent on a number of factors, including market conditions.  | See Section 3.5.           |
| What is the Company's valuation policy?                 | The assets of the Company will be valued using market accepted practices to accurately and independently price all securities and other assets within the Portfolio.   | See Sections 3.12 and 7.7. |
| What is the investment term?                            | Investors are strongly advised to regard any investment in the Company as a long term proposition (5+ years) and to be aware that, as with any equity investment, substantial fluctuations in the value of their investment may occur over that period.  | See Section 6.6.           |
| <b>C. Key Information about the Company and Manager</b> |  |                            |
| Who are the Company's Directors?                        | The Directors of the Company are:<br>(a) Rohan Hedley;<br>(b) Philip Howard;<br>(c) Justin Braitling; and<br>(d) Tim Bolger.<br><br>See Section 9.2 for further details regarding the background of the Directors.   | See Section 9.2.           |
| What is the financial position of the Company?          | The Company has no performance history, as it is yet to commence trading.<br><br>Pro-forma balance sheets are set out in Section 7.  | See Section 7.             |
| Who will manage the Portfolio?                          | Watermark Funds Management Pty Limited (ACN 106 302 505) is the Manager.<br><br>Justin Braitling will have primary responsibility for the investment decisions of the Manager. However, the Manager will ensure that each member of the Watermark Investment Team will be available to devote the amount of time required for the Manager to properly perform its functions in managing the Company's Portfolio in accordance with the Investment Management Agreement.<br><br>See Section 5 for detailed information regarding the experience and expertise of Justin Braitling and each of the members of the Watermark Investment Team. | See Sections 5.1 and 1.1.  |
| Does the Board approve investments?                     | Board approval is not required for investments undertaken by the Manager that are in accordance with the Company's investment objectives, strategies, guidelines and permitted investments agreed from time to time (initially being those summarised in this Prospectus). Any investments that the Manager proposes outside of these parameters must be approved by the Board.  | See Section 10.1.          |

| Question  | Answer  | More Information                    |
|---|---|-------------------------------------|
| <p>What experience does the Manager have?</p>   | <p>The Manager has a long track record in long/short investing, launching its first investment entity in 2004. It currently manages three long/short portfolios, with funds under management in excess of \$570 million as at the date of this Prospectus.</p> <p>Two of the Watermark Funds employ a market neutral strategy that is the same as the Company's Investment Strategy.</p> <p>Since December 2014, each of the Watermark Funds has had investment mandates that permit investments in international shares. Prior to this, analysis of international companies formed an integral part of the Manager's research on Australian companies. The Manager believes that it is well placed to manage the Company's Portfolio.</p> <p>Two of the Watermark Funds are also LICs. The Manager has over 12 years' experience managing LICs.</p> <p>The Board believes that its Directors and the Manager bring together the required experience and expertise in funds management, international securities and corporate governance.</p> <p>Please see Sections 4.5 and 5 for more information on the Manager's investment process and experience.</p>  | <p>See Sections 4.4, 4.5 and 5.</p> |
| <p>Will any related party have a significant interest in the Company or in connection with the Offer?</p> | <p>Each Director is a related party of the Company. The independent Directors, Rohan Hedley and Philip Howard, will be remunerated for their services. See Section 9.8 for a summary of their annual salaries. Justin Braitling (a director and beneficial owner of the Manager) and Tim Bolger (an employee of the Manager) will not receive Directors' fees from the Company.</p> <p>In addition to their annual salary (if applicable), each of the Directors will be entitled to be reimbursed for certain costs and expenses. Full details of Director remuneration are set out in Section 9.8.</p> <p>The Directors, and entities associated with them, are permitted to participate in the Offer. The Directors and their associates have not determined their exact participation in the Offer at the date of this Prospectus. At completion of the Offer, the Directors are expected to have a Relevant Interest in the following numbers of Securities:</p> <ul style="list-style-type: none"> <li>(a) Rohan Hedley: 100,000 Shares and Options;</li> <li>(b) Philip Howard: 50,000 Shares and Options;</li> <li>(c) Justin Braitling: 500,001 Shares and 500,000 Options; and</li> <li>(d) Tim Bolger: 10,000 Shares and Options.</li> </ul> <p>As a director and beneficial owner of the Manager, Justin Braitling will indirectly benefit from the Management Fees and Performance Fees paid to the Manager in accordance with the Investment Management Agreement.</p> <p>Other than as set out above and in this Prospectus, there are no other existing or proposed agreements or arrangements between the Company and its related parties.</p> | <p>See Section 9.</p>               |
| <p>What are the key terms of the Investment</p>   | <p>The Investment Management Agreement has an initial term of 5 years and, unless terminated, automatically extends for periods of 1 year at the end of the initial term and each subsequent term thereafter.</p>   | <p>See Sections 3.6 and 10.1.</p>   |

| Question                            | Answer  | More Information  |
|-------------------------------------|---|-------------------|
| Management Agreement?               | <p>The Company has applied to the ASX for a waiver to allow an initial term period of 10 years.</p> <p>If the ASX refuses the waiver application, the initial term of the Investment Management Agreement will be 5 years.</p> <p>The Manager will be responsible for managing the Portfolio in accordance with the strategy and the guidelines in Section 3 (as amended from time to time by the Company).</p> <p>The Manager is entitled to be paid certain fees under the Investment Management Agreement. These fees include: Management Fees, Performance Fees and in certain circumstances, termination fees. For details of these fees, how they are calculated and when they are payable, see Section 10.1.</p>   |                   |
| What fees will the Manager receive? | <p><b>Management Fee</b></p> <p>In return for the performance of its duties as Manager of the Portfolio, the Manager is entitled to be paid monthly a Management Fee equal to 1.20% (plus GST) per annum of the Value of the Portfolio (payable monthly in arrears and calculated on the last business day of each month).</p> <p>The Management Fee is to be paid to the Manager irrespective of the performance of the Company. Management Fees would increase as the Value of the Portfolio increases and decrease as the Value of the Portfolio decreases.</p> <p><i>Management Fee worked example</i></p> <p>Assuming an initial Value of the Portfolio of \$150,000,000 at 1 July 2016 and nil performance on the Portfolio each month, the Management Fee payable on the Portfolio for the 12 month period from 1 July 2016 to 30 June 2017 would be approximately \$1,789,887 (plus GST) paid monthly.</p> <p><b>Performance Fee</b></p> <p>In addition to the Management Fee, the Manager is entitled to be paid by the Company a fee (<b>Performance Fee</b>) equal to 20% (plus GST) of the Portfolio's outperformance relative to the RBA Cash Rate (<b>Benchmark</b>) over the 12 month period, subject to the recoupment of prior underperformance. The calculation of the Management Fee and the Performance Fee is explained in full in Section 10.1.</p> <p>Performance Fee worked examples</p> <p><i>Example 1: Outperformance against the Benchmark</i></p> <p>Assuming a Performance Calculation Period of 1 July 2016 to 30 June 2017, an initial Value of the Portfolio of \$150,000,000, and a Value of the Portfolio at the end of the Performance Calculation Period of \$165,000,000 (representing a 10% higher value than at the beginning):</p> <p>(a) If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate outperformance of \$12,750,000.</p> <p>(b) In this instance, there would be a Performance Fee payable at 20% of this amount equating to \$2,550,000 (plus GST) for the Performance Calculation Period as the Portfolio has outperformed the Benchmark.</p> | See Section 10.1. |



| Question   | Answer   | More Information |
|--|--|------------------|
|  | <p><i>Example 2: Underperformance against the Benchmark</i></p> <p>Assuming a Performance Calculation Period of 1 July 2016 to 30 June 2017, an initial Value of the Portfolio of \$150,000,000, and a Value of the Portfolio at the end of the Performance Calculation Period that is 1% higher than at the beginning of \$151,500,000:</p> <p>(a) If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate underperformance of \$750,000.</p> <p>(b) In this instance, there would be no Performance Fee payable for the Performance Calculation Period as the Portfolio has underperformed the Benchmark.</p> <p>(c) The aggregate underperformance of \$750,000 is to be carried forward to the following Performance Calculation Periods until it has been recouped in full against future positive Portfolio performance.</p> <p><i>Example 3: Recouping past underperformance</i></p> <p>Assuming a Performance Calculation Period of 1 July 2017 to 30 June 2018, an initial Value of the Portfolio of \$151,500,000, and a Value of the Portfolio at the end of the Performance Calculation Period that is 10% higher than at the beginning of \$166,650,000:</p> <p>(a) If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate outperformance of \$12,877,500.</p> <p>(b) The aggregate underperformance of \$750,000 from prior Performance Calculation Period(s) as per Example 2 above, is to be recouped in full against the current Portfolio performance, resulting in aggregate outperformance of \$12,127,500 for the Performance Calculation Period.</p> <p>(c) In this instance, there would be a Performance Fee payable at 20% of this amount equating to \$2,425,500 (plus GST) for the Performance Calculation Period, as the Portfolio has outperformed the Benchmark and prior underperformance has been recouped in full against current Portfolio performance.</p> |                  |
| <b>D. About the Offer</b>  |  |                  |
| Who is the issuer of the Shares and Options and this Prospectus? | The issuer is Watermark Global Leaders Fund Limited (ACN 614 536 560).   |                  |
| What is the Offer?   | <p>The Company is offering for subscription up to 100,000,000 Shares at an Application Price of \$1.10, with 1 attaching Option for every 1 Share subscribed, to raise up to \$110,000,000 (with the ability to accept Applications for up to a further 36,363,636 Shares and Options in oversubscriptions).</p> <p>Of the total Shares and Options available under the Offer, 27,272,727 Shares and Options are available under the Priority Allocation to Watermark Eligible Participants.</p> <p>The Offer also includes the Broker Firm Offer.</p>   | See Section 2.   |

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| Question                                       | Answer  | More Information                 |
|--|---|----------------------------------|
| What are the Option terms?                     | <p>For each Share issued to an Applicant, the Company will issue to that Applicant one Option. Applicants do not have to pay to subscribe for Options under the Offer.</p> <p>Each Option is exercisable into one fully paid ordinary share at \$1.10 until 5.00pm (Sydney time) on 16 November 2018.</p>   | See Section 11.4.                |
| How do I apply for Shares and Options?         | <p>The procedures for making an investment in the Company are described in Section 2.</p> <p>The Company or the Joint Lead Managers may be required to obtain identification information from certain Applicants. The Company reserves the right to reject an Application if that information is not provided upon request.</p>   | See Section 2.                   |
| How to participate in the Priority Allocation? | Watermark Eligible Participants should refer to Section 2.3 and Section 2.7 for details of how to participate in the Priority Allocation.   | See Section 2.3 and Section 2.7. |
| How to participate in the Broker Firm Offer?   | Applicants under the Broker Firm Offer should contact their Broker for instructions on how to complete the Broker Firm Application Form accompanying this Prospectus. Shares and Options will be allotted under the Broker Firm Offer provided the Broker Firm Application Forms are received or commitments are given to the Joint Lead Managers to lodge the Broker Firm Application Form by 5.00pm (Sydney time) on 2 December 2016.   | See Section 2.2.                 |
| What is the purpose of the Offer?              | The money raised under the Offer will be used by the Company for investments consistent with the Company's Investment Strategy and objectives and paying the costs of the Offer, including obtaining a listing on ASX.  | See Sections 3 and 4.            |
| What are the fees and costs of the Offer?      | <p>The Company will pay Taylor Collison Limited an arranger fee equal to 0.05% (plus GST) of the total proceeds raised under the Offer. The Company will pay the Joint Lead Managers a management fee equal to 1.20% (plus GST) of the total proceeds raised under the Offer (with each Joint Lead Manager receiving one fifth of this management fee). In addition, the Company will pay to each Joint Lead Manager a Broker Firm selling fee of 1.5% (plus GST) of the total proceeds of the Broker Firm Offer raised by the relevant Joint Lead Manager and their associated Brokers.</p> <p>The costs of the Offer, net of tax and GST, include legal, accounting, marketing and other costs associated with the preparation of the Prospectus and the issue of Shares and Options.</p> <p>These costs are estimated to be:</p> <p>(a) \$999,576, assuming the Minimum Subscription is reached;</p> <p>(b) \$2,231,444, assuming the Maximum Subscription is reached; and</p> <p>(c) \$2,989,728, assuming the Offer is fully subscribed and the Company accepts \$40,000,000 in Oversubscriptions.</p> | See Sections 7 and 10.2.         |
| Is the Offer underwritten?                     | No.   | See Section 2.                   |
| Who are the Joint Lead Managers?               | Taylor Collison Limited, Commonwealth Securities Limited, Morgans Financial Limited, Morgan Stanley Australia Securities  | See Section 10.2.                |

| Question   | Answer  | More Information  |
|--|---|-------------------|
|  | Limited and Ord Minnett Limited are the Joint Lead Managers to the Offer.   |                   |
| Who is the Authorised Intermediary?                              | Taylor Collison is the Authorised Intermediary of the Offer.  | See Section 10.2. |
| Who can participate in the Offer?                                | Members of the general public that have a registered address in either Australia or New Zealand.  | See Section 2.    |
| Can superannuation funds invest?                                 | Yes, subject to the investment mandate of the particular fund and the trustee's general powers and duties.  | See Section 2.    |
| Is there a minimum subscription amount for the Offer to proceed? | Yes, the Company must receive valid Applications for 36,363,636 Shares and Options in order for the Offer to proceed.   | See Section 2.    |
| Is there a minimum subscription amount for each Application?     | Yes, each Applicant must subscribe for a minimum of 2,000 Shares at the Application Price of \$1.10 per Share i.e. \$2,200. For every one Share issued under the Offer, Applicants will receive an attaching Option, exercisable at \$1.10 on or before 16 November 2018.   | See Section 2.    |
| Is there a cooling off period?                                   | No.   | See Section 2.    |
| How can I obtain further information in relation to the Offer?   | Contact Watermark Global Leaders Fund Limited, on (02) 9252 0225 or via email to <a href="mailto:info@wfunds.com.au">info@wfunds.com.au</a> .<br><br>If you are uncertain as to whether an investment in the Company is suitable for you, please contact your stockbroker, financial adviser, accountant, lawyer or other professional adviser. |                   |

The above table is a summary only. This Prospectus should be read in full before making any decisions to apply for Shares and Options.

## 2. Details of the Offer

This is a summary only. This Prospectus should be read in full before making any decision to apply for Shares and Options.

### 2.1. The Offer

#### *Shares*

The Company is offering for subscription a minimum of 36,363,636 and up to 100,000,000 fully paid ordinary Shares and Options (before Oversubscriptions). Shares will be issued at an Application Price of \$1.10 per Share. The Offer will raise between \$40,000,000 and \$110,000,000 (before Oversubscriptions). The Company has the ability to accept Applications for up to a further 36,363,636 Shares and Options in Oversubscriptions. The rights attaching to the Shares are set out in Section 11.3.

#### *Options*

For each Share issued to an Applicant, the Company will issue to that Applicant one Option. Each Option is exercisable into one fully paid ordinary Share at \$1.10 per Option until 5.00pm (Sydney time) on 16 November 2018. The terms of the Options are set out in Section 11.4.

#### *The Offer*

The Offer is made up of the Broker Firm Offer (detailed in Section 2.2), the Priority Allocation (detailed in Section 2.3) and the General Offer (detailed in Section 2.4).

The Offer will only be made to investors that have a registered address in either Australia or New Zealand.

Early lodgement of your Application is recommended, as the Directors may close the Offer at any time after the expiry of the Exposure Period without prior notice. The Directors may extend the Offer in accordance with the Corporations Act. The Directors reserve the right to terminate the Offer at any time.

### 2.2. Broker Firm Offer

The Broker Firm Offer is open to all Applicants that have received a firm allocation from their Broker and that have a registered address in either Australia or New Zealand.

Applicants that have been offered a firm allocation by a Broker will be treated as Applicants under the Broker Firm Offer in respect of that allocation.

To participate in the Broker Firm Offer, your Application Form must be received by your Broker by 5:00pm Sydney time on the Broker Firm Offer Closing Date.

Applicants should contact their Broker to determine whether they may be allocated Shares and Options under the Broker Firm Offer.

### 2.3. Priority Allocation

Up to 27,272,727 Shares and 27,272,727 Options have been set aside for the Priority Allocation to Watermark Eligible Participants. Watermark Eligible Participants are investors in one or more of Australian Leaders Fund Limited, Watermark Market Neutral Fund Limited and the Watermark Market Neutral Trust with registered addresses in Australia or New Zealand (**Watermark Eligible Participants**).

The Priority Allocation will be restricted to the Watermark Eligible Participants and allocated at the Directors' discretion.

Watermark Eligible Participants should use the Priority Allocation Application Form. To participate in the Priority Allocation, your Application Form and Application Monies must be submitted to the Registry by 5:00pm (Sydney time) on the Closing Date.

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Early lodgement of your Application is recommended, as the Offer may be closed early at the Directors' discretion.

If the Company receives Applications from Watermark Eligible Participants for more than 27,272,727 Shares and 27,272,727 Options, it intends to treat such additional Applications as being made under the General Offer on a General Offer Application Form.

Shares and Options offered under the Priority Allocations that are not taken up will be allocated by the Company under the General Offer or Broker Firm Offer.

#### **2.4. General Offer**

The General Offer is open to all Applicants with a registered address in either Australia or New Zealand. Staff of the Manager and Directors of the Company are able to participate in the General Offer. See Section 9.6 for details of the Directors' participation.

To participate in the General Offer, your Application Form and Application Monies must be submitted to the Registry by 5:00pm (Sydney time) on the Closing Date.

Early lodgement of your Application is recommended as the Offer may be closed early at the Directors' discretion.

#### **2.5. Minimum Subscription**

The minimum subscription amount payable by an individual Applicant under the Offer is \$2,200 (i.e. 2,000 Shares and Options). In addition, there is an aggregate Minimum Subscription required of \$40,000,000 for the Offer to proceed.

#### **2.6. Offer not underwritten**

The Offer is not underwritten.

#### **2.7. Applications under the General Offer or Priority Allocation**

##### *Application Forms*

Applications under the Offer must be made and will only be accepted on the applicable Application Form that accompanies this Prospectus.

The Application Form marked "General Offer" must be completed by Applicants that are not participating in the Broker Firm Offer or the Priority Allocation. The Application Form marked "Priority Allocation" must be completed by Eligible Applicants that are not participating in the Broker Firm Offer or the General Offer.

"General Offer Application Forms" and "Priority Allocation Application Forms" will be accepted at any time after the Opening Date and prior to 5:00pm (Sydney Time) on the Closing Date (expected to be 9 December 2016).

An Application Form must be completed in accordance with the instructions on the form (if using a paper Application Form, the instructions are on the reverse side of the Application Form or, if using an electronic Application Form, follow the prompts).

Applications under the General Offer or Priority Allocation must be for a minimum of 2,000 Shares and 2,000 Options (i.e. \$2,200).

Applications and Application Monies for Shares and Options under the Offer received after 5:00pm (Sydney time) on the Closing Date will not be accepted and will be returned to Applicants.

The Directors may extend the Closing Date. Applications must be accompanied by payment in Australian currency.

*Payment by cheque or bank draft*

Cheque(s) or bank draft(s) must be drawn on an Australian branch of a financial institution and made payable to "Watermark Global Leaders Fund Limited" and crossed "Not Negotiable".

Payments by cheque will be deemed to have been made when the cheque is honoured by the bank on which it is drawn. Accordingly, Applicants should ensure that sufficient funds are held in the relevant account(s) to cover your cheque(s).

If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheques clear in time for the allocation) is insufficient to pay for the number of Shares you have applied for in your Application Form, you may be taken to have applied for such lower amount as your cleared Application Monies (and to have specified that amount in your Application Form) or your Application may be rejected.

Completed Application Forms and accompanying cheques may be lodged with:

**BY MAIL**

Watermark Global Leaders Fund Limited  
c/- Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001

**HAND DELIVERED**

Watermark Global Leaders Fund Limited  
c/- Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000

*Payment by BPAY*

You may apply for Shares and Options online and pay your Application Monies by BPAY.

Applicants wishing to pay by BPAY should complete the online Application Form accompanying the electronic version of this Prospectus, which is available at [www.wfunds.com.au](http://www.wfunds.com.au) and follow the instructions on the online Application Form (which includes the Biller Code and your unique Customer Reference Number (**CRN**)).

You do not need to complete and return a paper Application Form, if you pay by BPAY.

You should be aware that you will only be able to make a payment via BPAY, if you are the holder of an account with an Australian financial institution which supports BPAY transactions.

When completing your BPAY payment, please make sure you use the specific Biller Code and your unique CRN provided on the online Application Form. If you do not use the correct CRN, your Application will not be recognised as valid.

It is your responsibility to ensure that payments are received by 5.00pm (Sydney time) on the Closing Date. Your bank, credit union or building society may impose a limit on the amount that you can transact on BPAY, and policies with respect to processing BPAY transactions may vary between banks, credit unions or building societies.

The Company accepts no responsibility for any failure to receive Application Monies or payments by BPAY before the Closing Date arising as a result of, among other things, processing of payments by financial institutions.

**2.8. Applications under the Broker Firm Offer**

If you are applying for Shares and Options under the Broker Firm Offer, you should arrange for your Broker Firm Application Form to be lodged with the Broker from whom you received your firm allocation.

Broker Firm Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Broker Firm Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with a Broker Firm Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a copy of this Prospectus.

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Applicants under the Broker Firm Offer must complete their Broker Firm Application Form and pay their Application Monies to their Brokers in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Broker Firm Application Forms to the Company or Registry.

The Broker Firm Offer is expected to close at 5.00pm (Sydney time) on 2 December 2016. Please contact your Broker for instructions.

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions from their Brokers. The allocation of Shares and Options to Brokers will be determined by the Company. Securities that are allocated to Brokers for allocation to their Australian and New Zealand resident clients will be issued to the successful Applicants that have received a valid allocation of Securities from those Brokers.

It will be a matter for the Brokers to allocate Securities among their clients and they (and not the Company) will be responsible for ensuring that clients, who have received an allocation from them, receive the relevant Securities.

The Company and the Share Registry take no responsibility for any acts or omissions by your Broker in connection with your Application, Broker Firm Application Form and Application Monies (including, without limitation, failure to submit Broker Firm Application Forms by the close of the Broker Firm Offer).

Delivery versus payment (DvP) settlement is available for Applicants under the Broker Firm Offer. Please contact your Broker or the Joint Lead Managers for further details.

## **2.9. Exposure Period**

The Corporations Act prohibits the Company from processing Applications in the 7 day period after the date of lodgement of the Original Prospectus with ASIC. This period may be extended by ASIC by up to a further 7 days. Applications received during the Exposure Period will not be processed until after the expiry of that period.

No preference will be conferred on Applications received during the Exposure Period.

## **2.10. Allocation policy**

The basis of allocation of Securities within the General Offer, the Priority Allocation and the Broker Firm Offer will be determined by the Company and the Joint Lead Managers.

Certain Applicants nominated by the Company may be given preference in the allocation of Securities. The Directors currently expect that certain shareholders, directors and employees of the Manager and the Company will participate in the Offer.

The Company reserves the right in its absolute discretion not to issue any Securities to Applicants under the Offer and may reject any Application or allocate a lesser number of Securities than those applied for at its absolute discretion.

## **2.11. Application Monies**

All Application Monies received by the Company will be held by the Company on trust, in a separate account until the Securities are issued to successful Applicants. The Company will retain any interest earned on the Application Monies held on trust pending the issue of Securities to successful Applicants.

## **2.12. Allotment**

The Company will not allot Shares and Options until the Minimum Subscription has been received and ASX has granted permission for quotation of the Shares and Options unconditionally or on terms acceptable to the Company. The Company is not currently seeking quotation of its Securities on any financial market other than ASX. The fact that ASX may admit the Company to the Official List and grant official quotation of the Shares and Options is not to be taken in any way as an indication of the merits of the Company or the Securities offered for issue under the Offer.

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ASX takes no responsibility for the contents of this Prospectus. Normal settlement trading in the Shares, if quotation is granted, will commence as soon as practicable after the issue of holding statements to successful Applicants. It is the responsibility of Applicants to determine their allocation prior to trading in the Shares. Applicants that sell Shares before they receive confirmation of their allotment will do so at their own risk.

If ASX does not grant permission for the Securities to be quoted within three months after the date of the Original Prospectus, the Shares and Options will not be issued and all Application Monies will be refunded (without interest) as soon as practicable.

It is expected that the issue of Shares and Options under the Offer will take place by 16 December 2016.

An Application constitutes an Offer by the Applicant to subscribe for Shares and Options on the terms and subject to the conditions set out in this Prospectus. A binding contract to issue Shares and Options will only be formed at the time Shares and Options are allotted to Applicants.

Where the number of Shares and Options allotted is fewer than the number applied for or where no allotment is made, the surplus Application Monies will be returned to Applicants (without interest) within the time prescribed by the Corporations Act.

### **2.13. ASX and CHES**

The Company applied within 7 days of the date of the Original Prospectus for admission to the Official List of the ASX and for the Shares and Options to be quoted.

The Company will apply to participate in the ASX's CHES and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHES is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares and Options become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in 1 of 2 sub-registers, an electronic CHES sub-register or an issuer sponsored sub-register. All other Shares and Options will be registered on the issuer sponsored sub-register.

Following completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares and Options that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHES holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their holding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month, if there has been a change to their holding on the register and as otherwise required under ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHES sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

### **2.14. Brokerage, commission and stamp duty**

No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares and Options under the Offer.

### **2.15. Joint Lead Managers**

Offers under this Prospectus will be made under an arrangement between the Company and the Authorised Intermediary, under Section 911A(2)(b) of the Corporations Act. The Company will only authorise the Authorised Intermediary to make offers to people to arrange for the issue of Shares and Options by the Company under the Prospectus and the Company will only issue Shares and Options in accordance with Applications made under such offers, if they are accepted.

The Company will pay Taylor Collison Limited an arranger fee equal to 0.05% (plus GST) of the total proceeds raised under the Offer. The Company will pay the Joint Lead Managers a management fee

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equal to 1.20% (plus GST) of the total proceeds raised under the Offer (with each Joint Lead Manager receiving one fifth of this management fee). In addition, the Company will pay to each Joint Lead Manager a Broker Firm selling fee of 1.5% (plus GST) of the total proceeds of the Broker Firm Offer raised by the relevant Joint Lead Manager and their associated Brokers.

The Authorised Intermediary's and the Joint Lead Managers' functions should not be considered as an endorsement of the Offer or a recommendation of the suitability of the Offer for any investor. The Joint Lead Managers do not guarantee the success or performance of the Company or the returns (if any) to be received by the Securityholders.

The Joint Lead Managers are not responsible for and have not caused the issue of this Prospectus.

## **2.16. Overseas investors**

The Offer is an offer to Australian investors and New Zealand investors. The Offer does not constitute an offer in any place in which, or to any person to whom, it would be unlawful to make such an offer.

### *United States residents*

The Offer is not open to persons in the United States or U.S. Persons.

The Securities being offered pursuant to this Prospectus have not been registered under the US Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration under the US Securities Act and applicable state securities laws. This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of these Securities in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful. In addition, any hedging transactions involving these Securities may not be conducted unless in compliance with the US Securities Act.

### *Overseas ownership and resale representation*

It is your responsibility to ensure compliance with all laws of any country relevant to your Application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty made by you to the Company that there has been no breach of such laws and that all necessary consents and approvals have been obtained.

## **2.17. Privacy**

When you apply to invest in the Company, you acknowledge and agree that:

- (a) you are required to provide the Company with certain personal information to:
  - (i) facilitate the assessment of an Application;
  - (ii) enable the Company to assess the needs of Applicants and provide appropriate facilities and services for Applicants; and
  - (iii) carry out appropriate administration;
- (b) the Company may be required to disclose this information to:
  - (i) third parties that carry out functions on behalf of the Company, including marketing and administration functions, on a confidential basis; and
  - (ii) third parties if that disclosure is required by law; and
  - (iii) related bodies corporate (as that term is defined in the Corporations Act) which carry out functions on behalf of the Company.

Under the *Privacy Act 1988* (Cth), Applicants may request access to their personal information held by (or on behalf of) the Company. Applicants may request access to personal information by telephoning or writing to the Manager.

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**2.18. Tax implications of investing in the Company**

The taxation consequences of any investment in the Securities will depend on your particular circumstances. It is your responsibility to make your own enquiries concerning the taxation consequences of an investment in the Company. Applicants are urged to consider the possible tax consequences of participating in the Offer by consulting a professional tax adviser.

A general overview of the Australian taxation implications of investing in the Company is set out in Section 11.8 and is based on current tax law and Australian Tax Office (**ATO**) tax rulings. The information in Section 11.8 is not intended as a substitute for investors obtaining independent tax advice in relation to their personal circumstances. We recommend you seek independent tax advice.

**2.19. Anti-Money Laundering / Counter-Terrorism Financing Act 2006**

The Company, Manager or Joint Lead Managers may be required under the *Anti-Money Laundering/Counter-Terrorism Financing Act 2006* (Cth) or any other law to obtain identification information from Applicants. The Company reserves the right to reject any Application from an Applicant that fails to provide identification information upon request.

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### 3. About the Company

#### 3.1. Overview

The Company has been established to invest in a Portfolio predominately comprised of international listed securities. The Company's market neutral Investment Strategy aims to provide Shareholders with exposure to the Manager's expertise in identifying mispriced securities, whilst limiting the Company's net exposure to international share markets and associated currency risks.

The Company will be managed by the Manager, an experienced investor in listed securities that specialises in long/short and market neutral investing.

In the Board's view, the Company's Investment Strategy offers investors an alternative to more traditional 'long only' funds, which largely rely on a rising share market to generate returns.

#### 3.2. Investment Objective

The Company's investment objectives are to:

- (a) provide capital growth and income using a market neutral structure through investing in a Portfolio predominantly comprised of international listed securities;
- (b) deliver consistent, positive rates of return with relatively low volatility, whilst maintaining little or no net exposure to the underlying share market.

The investment objectives of the Company are not forecasts. The Company may not be successful in meeting these objectives.

#### 3.3. Investment Strategy

The primary goal of the Company's Investment Strategy is the identification of mispriced securities. In implementing this strategy on behalf of the Company, the Manager will look to:

- (a) invest in the securities of strong businesses when the Manager believes they are attractively priced - investing in 'winners'; and
- (b) Short sell the securities of weaker businesses when the Manager believes they are overvalued - Short selling 'losers'.

The Investment Strategy uses a market neutral structure. As such, it aims to profit from the relative performance of two discrete portfolios of roughly equal size. The Company's strategy provides Shareholders with the opportunity to gain exposure to mispriced listed securities identified by the Manager, while taking advantage of the natural hedge in the market neutral structure.

In general terms, the hedge in a market neutral structure operates by having assets (i.e. Long Positions) and liabilities (i.e. Short Positions) with values that are roughly equal. In this way, the effects of broad based movements in the underlying share market are effectively hedged. As an example, in the event of a market crash, the value of both the Company's assets (or Long Positions) and liabilities (or Short Positions) are likely to fall in value. If the value of the Long and Short Portfolios both fell by the same quantum, the net asset value of the Company's total Portfolio would be unchanged.

The effectiveness of the hedge depends on the Manager's ability to construct Long and Short Portfolios that respond in the same way to exogenous forces. The Manager aims to do this by ensuring not only that the values of the Long and Short Portfolios are roughly equal, but that they are also roughly matched in terms of their composition (number of positions, sector and regional exposures and exposure to various risk factors).

Shareholders will benefit from the Company's Investment Strategy, if the securities in the Long Portfolio (or 'winners') outperform the securities in the Short Portfolio (or 'losers'). Whether this in fact occurs will depend entirely on fundamental factors influencing the relevant underlying businesses, irrespective of what the share market does. In this way, the Company's returns will largely reflect the Manager's

success in choosing securities to buy and sell (short) and will be largely uncorrelated with the share market. This is also a key source of risk. If security selection is poor, the Portfolio value may fall. See Section 6 for further details.

While traditional long only funds will try to 'beat the market', the Company's strategy has a different objective. The Manager constructs two portfolios with the objective of one beating the other. Compared to traditional 'long only' strategies, the Board considers this a more effective means of exploiting potentially mispriced securities with less reliance on a rising share market.

*How is a Market Neutral Portfolio Structured?*

**Figure 1: Market neutral structure**

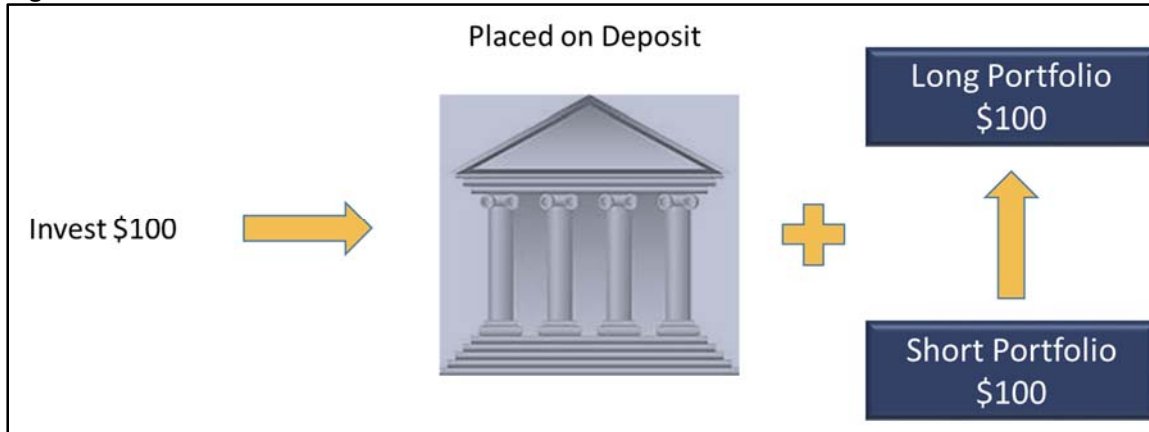


Figure 1 shows the flow of funds within market neutral structure (before expenses). In this figure, \$100 of capital is retained in cash held with a bank ("Placed on deposit").

A Short Portfolio is then constructed by the Manager short selling securities that it believes are currently overpriced by the market and are expected to decrease in value. The proceeds raised from short selling these securities (in the above example, being \$100) are then used to buy securities that the Manager believes will increase in value (in the above example, \$100 of Long Positions). By constructing Long and Short Portfolios of equal value, the exposure to general share market movements is effectively hedged.

### 3.4. Investment process

The Company's Investment Strategy will be implemented by the Manager. The Manager's investment process looks to identify entities that, in the Manager's opinion, are either undervalued or overvalued by the market.

#### *Investment ideas and opportunities*

The Manager employs a fundamental research process in seeking to identify investment ideas. Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources.

The Manager has industry specialists that look globally for the best Long and Short Positions ideas in their respective industries.

Investment opportunities emerge from close examination of industry trends. These developments may include economic, political or legislative changes that impact the structure and competitive environment in which a company operates. The Manager considers that investors in many instances are slow to identify and correctly price the impact of these changes.

The Manager believes that the best investment ideas are based on a unique view or insight, are relevant to the value of the business and are not currently reflected in the share price.

### *Qualitative assessment*

Once an investment idea has been identified, the Manager undertakes a full qualitative assessment of the proposed investment to establish whether the underlying business is of a suitable quality and attractively priced.

Initially a full review of financial performance is completed. This is usually followed by a meeting or teleconference with management to further develop an understanding of the business and the management philosophy. Where possible, members of the Manager's investment team will also meet with or speak to suppliers, regulators, competitors and customers to gauge the competitive environment.

If the opportunity is being assessed as a potential Long Position, the Manager will typically look for entities it considers as exhibiting the following characteristics:

- (a) a history of superior returns through the economic cycles;
- (b) management with a track record of creating and distributing value (total shareholder returns including dividends) to security holders;
- (c) businesses that the Manager considers have a capacity for growth; and
- (d) securities that are inexpensive on a range of valuation measures.

If the opportunity is being assessed as a potential Short Position, the Manager's qualitative assessment will look for the opposite qualities, including:

- (a) a history of inferior returns;
- (b) management with a poor track record;
- (c) businesses that the Manager sees as highly competitive and/or struggling to grow; and
- (d) securities that are expensive on a range of valuation measures.

An overall qualitative scorecard is compiled for each security, incorporating business quality, management quality and valuation. The results of macroeconomic and sector research along with a full range of risk metrics as well are also built into this scorecard.

A ranking of investment ideas by score, along with conviction will determine security weightings in the final Portfolio construction.

### *Picking 'winners' and 'losers' within industries*

The Manager looks to invest (i.e. hold Long Positions) in attractive entities that it considers to be undervalued and that rank well on the qualitative scorecard. Equally, the Manager looks to Short Sell securities it identifies as overvalued that rank poorly on the qualitative scorecard. This is aimed at ensuring the Company gets exposure to the best individual investment ideas, with the highest conviction while maintaining a favourable quality and value bias between the Long and Short Portfolios.

Macroeconomic and sector research along with a full range of risk metrics (built into the scorecard mentioned above), will influence the overall weighting of each investment.

### *Ongoing monitoring*

The Manager will monitor the Portfolio on a daily basis, rebalancing when required to ensure that the respective values of the Long and Short Portfolios remain within the limits for net equity exposure. To

maintain the net equity exposure within the stated limits, the Manager may adjust the relative size of positions within the Long and Short Portfolio, increasing or reducing market risk.

### 3.5. Portfolio construction

The Company has a global mandate and may invest in securities (including listed, unlisted, fixed income and certain debt securities), derivatives, currency positions, cash, and other permitted investments (see Sections 3.7 for full details). Notwithstanding this broad mandate, the Portfolio is expected to be predominantly comprised of Long and Short Positions in international listed securities.

The Company's Portfolio will be constructed using a market neutral structure, and will be comprised of a Long and Short Portfolio, each approximately balanced in terms of value and composition (number of positions, sector and regional exposures and exposure to various risk factors).

The Long and the Short Portfolios will each be comprised of a select number of securities (typically between 40 to 80 securities) that the Manager considers to be mispriced. The Manager will build the Portfolio using the investment process outlined in Section 3.4.

The Portfolio will be constructed in accordance with investment guidelines agreed with the Company from time to time (initially being the guidelines are set out in Section 3.6).

At all times, the Company's capital will be retained in cash or cash equivalents with the Prime Broker or an Australian bank.

Net equity exposure within the Portfolio (that is Long Positions minus Short Positions and derivatives) will typically be zero, and is limited to  $\pm 20\%$  of the Portfolio's NAV. In line with the market neutral strategy, net exposures to particular regions, industries or sectors, as well as derivatives within the Portfolio are also limited. See Section 3.6 for details.

The Manager will not have to have expertise in all parts of the market and across all industries at all times. The Investment Strategy allows for the Company's investment universe to be tailored to those industries and regions where the Manager has expertise at any given time. Where the Manager has a strong industry or regional view, the Company can retain modest net exposures or 'tilts'.

Furthermore, foreign currency exposures will be managed by balancing long and short exposures in each region and through an active treasury management program and any net exposure to any foreign currency within the Portfolio is restricted to  $\pm 20\%$  of the Portfolio's NAV. See Section 3.6(d) for details of the Company's currency policy.

Gross equity exposure within the Portfolio (i.e. the sum of the value of Long Positions, Short Positions and derivatives) will not exceed 400% (but will typically be between 150% and 300% of the Portfolio's NAV).

The Manager expects to be fully invested within a short period of time (3 months after listing on the ASX) given the breadth of investment opportunities available within the Company's investment universe.

### 3.6. Investment Guidelines

The key investment guidelines for the construction of the Portfolio will be based on the following principles:

| Exposure              | Guidelines   |
|-----------------------|--|
| Net equity exposure   | Limited to $\pm 20\%$ of the Portfolio's NAV, but typically zero.              |
| Gross equity exposure | Maximum of 400% of the Portfolio's NAV, but typically between 150-300%.        |
| Number of securities  | Typically, between 40-80 securities within both the Long and Short Portfolios. |

| Exposure                         | Guidelines  |
|----------------------------------|---|
| Position size                    | Individual positions are limited to $\pm 20\%$ of the Portfolio's NAV, but will typically represent less than $\pm 10\%$ of the Portfolio's NAV.  |
| Industry/Sectors                 | The Portfolio will be diversified across a broad range of sectors and industry groups, with net exposures to each industry or sector typically less than $\pm 10\%$ of the Portfolio's NAV.                         |
| Foreign currencies               | Currency exposures will be actively managed (see Section 3.6(d) for more information). Net exposure to any foreign currency within the Portfolio is limited to $\pm 20\%$ of the Portfolio's NAV.                   |
| Geographic exposures             | Geographic limitations are not within the Company's Investment Strategy. The Portfolio will be diversified across multiple geographies. Investment in domestic securities is limited to 20% of the Portfolio's NAV. |
| Derivative exposure              | Permitted (see Section 3.6(c) for more information). Derivative exposures can be up to 100% of the Portfolio's NAV, but will typically be less than 20%.  |
| Short selling                    | Permitted (see Section 3.6(b) for more information).  |
| Cash and cash equivalents        | Up to 120% of the Portfolio's NAV.  |
| Fixed income and debt securities | Typically zero, but limited to 120% of the Portfolio's NAV.   |
| Currency forwards/contracts      | Typically zero, but limited to 50% of the Portfolio's NAV.  |
| Unlisted securities              | Up to 20% of the Portfolio's NAV.   |

(a) *Leverage Policy*

The Company does not intend to borrow funds to invest.

Financial leverage increases an investor's exposure to an asset by applying borrowed funds, in addition to the investor's capital when making an investment.

In a market neutral structure, leverage will be created as the proceeds from short selling are reinvested in Long Positions. Leverage in the form of short selling is used to hedge share market risk and should be distinguished from the application of borrowed funds, where an investor's liability has a fixed value.

By reinvesting short-sale proceeds, the value of the Company's liabilities (i.e. Short Positions) will move up and down with the value of the Company's assets (i.e. Long Positions). If the Manager is successful in constructing the Company's Short Portfolio, the value of this liability – the cost to the Company to re-purchase the securities it has sold-short – will fall. Conversely, if the value of the Short Portfolio increases, the Company's liability will increase.

In this way, the primary risk of the leverage in a market neutral structure is to the portfolio manager's success in constructing a Long Portfolio that outperforms the Short Portfolio (in absolute terms), rather than to adverse movement in the underlying share market.

Leverage through short selling can magnify gains in the combined Portfolio, but can also magnify losses. With a view to managing this risk, gross equity exposure within the Portfolio will not exceed 400% of the Portfolio's NAV. This limitation includes all equity and derivative positions within the Portfolio. Notwithstanding this maximum limit, the Manager expects gross exposure within the Portfolio will typically be between 150-300%.

At the maximum level (400%), this means for every \$100 of the Company's capital, the Manager may invest \$200 in Long Positions and \$200 in Short Positions. In such a case, if the Company's securities (or the underlying securities of derivatives) increased in value by 10% within the Portfolio (or, in the case of Short Positions, decreased in value by 10%), the increase in the Portfolio's NAV would be 20% (or \$20). Conversely, a fall of 10% (or rise of 10% in the case of Short Positions) in the value of the

securities within the Portfolio (or the value of the assets underlying derivatives within the Portfolio) would result in the Portfolio's NAV falling by 20% (or \$20).

It should be noted that while the Company's Portfolio may be leveraged up to 400% of its NAV, investors in the Company would not have an exposure in excess of 100% of their investments in the Company's Securities.

*(b) Short selling Policy*

A short sale occurs when the Manager borrows a security from the Prime Broker (or lender) and sells the security to a third party, generating cash proceeds. In return, the Manager pays a lending fee to the Prime Broker. The Manager will reacquire the same security on-market and return it to the lender to close the transaction. The Company generates a return if the price of the borrowed security declines in value in the period between the Short Sale and the reacquisition. Conversely, the Company will suffer a loss if the borrowed security increases in value during this period. While the time period for borrowing securities to Short Sell is not fixed, the Prime Broker may recall the securities and the Manager must acquire them on-market to close the transaction.

In the Investment Strategy, the Manager will use the proceeds of short selling to buy Long Positions. As the Long Portfolio is funded from the proceeds of the Short Portfolio, the Company's Portfolio (as a whole) can be effectively hedged with little or no net market exposure. See Section 3.3 for details of how this hedge works.

Short selling can involve greater risk than buying a security (i.e. a Long Position), as losses can continue to grow to the extent that the price of the borrowed security rises. The risk of losses associated with a Long Position is generally restricted 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 by offsetting (or hedging) losses on Long Positions, it is also possible for Long and Short Positions to both lose money at the same time.

*As an example of how short selling works:*

The Manager receives \$100 of capital, which is placed on deposit with the Prime Broker/Custodian or with a bank. The 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 Position, creating an asset also worth \$100. In this example, the Company would have a gross exposure to securities of 200% of the Portfolio's NAV and net market exposure within the Portfolio (as a whole) would be zero.

If the Manager is successful and the value of the Long Position increases by 5% (to \$105) while the value of the Short Position decreases by 5% to (\$95), by virtue of the leverage in the structure, the Company will have made a profit of 10% or \$10 (before costs and interest). This is twice the return of a traditional long only portfolio that would make 5% or \$5 on the increase in value of the Long Position.

Conversely, if the Manager is not successful and the movements in the Portfolio values are reversed, the Company will have lost 10% or \$10 (before costs and interest), twice the amount a traditional long only portfolio would have lost (which would have fallen by just 5% or \$5).

*(c) Derivative Policy*

The Company may use financial derivative instruments (both exchange traded derivatives and over-the-counter) for risk management purposes and to take opportunities to increase returns, including, for example:

- (i) for the purposes of risk management in order to either increase or decrease the Company's exposure to markets and establish currency positions;
- (ii) to amplify high conviction ideas and take opportunities that may increase the returns of the Company;
- (iii) with a view to reducing transaction and administrative costs (e.g. the use of an equity swap to establish a Short Position in a security);

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- (iv) to take up positions in securities that may otherwise not be readily accessible (e.g. access to a security market where foreign investors face restrictions); and
- (v) to assist in the management of the Company's cash flows (e.g. certain securities markets may require pre-funding of securities purchases that may be avoided through the use of derivatives).

The Company may invest in exchange traded derivatives and over-the-counter derivatives including options, participatory notes, futures and swaps for fixed income, currencies commodities and credit default exposures, currency forwards/contracts and related instruments. However, the Company has the following restrictions on its ability to use derivatives:

- (i) the effective exposure via the derivatives within the Portfolio may not exceed 100% of the Portfolio's NAV. If the Portfolio has a 100% NAV exposure to derivative positions, it is theoretically possible that the Company could lose its entire Portfolio from losses on its derivatives positions; and
- (ii) the Portfolio's gross exposure (i.e. the value of Long Positions plus Short Positions plus derivatives within the Portfolio) must not exceed 400% of the Portfolio's NAV. See Section 3.6(a) for further details.

Generally, over-the-counter derivatives transactions carry greater counterparty risk than exchange traded derivatives (i.e. where the counterparty to the transaction is the exchange's clearing house). Trading in over-the-counter derivatives will generally require the lodgement of collateral or credit support, such as a margin or guarantee with the counterparty, which in turn gives rise to counterparty risk. To mitigate counterparty risks, the Manager and the Company will seek to deal only with counterparties that are institutions subject to prudential supervision.

*(d) Currency Policy*

International investments create an exposure to foreign currency fluctuations, which can change the value of the investments measured in the Portfolio's base currency (Australian Dollars). The Manager will manage risks created by currency exposures by balancing exposures to each foreign currency across the Long and Short Portfolios and through an active treasury management program.

In the same way that the Company's net exposure to share market risk is hedged, the Portfolio's exposure to foreign currency risks will be effectively hedged to the extent the values of the asset (Long Position) and liability (Short Position) denominated in each foreign currency are matched.

From time to time, net exposures to foreign currencies may arise due to unrealised gains or losses in the Portfolio. However, these mismatches are expected to be small. Further, the Investment Strategy limits net exposure to any foreign currency within the Portfolio to  $\pm 20\%$  of the Portfolio's NAV. The Manager will monitor any mismatches on a daily basis and will move a portion of the cash held with the Prime Broker (in Australian dollars) between accounts denominated in foreign currencies to further hedge these exposures.

The Manager also has the ability to manage the currency exposures of the Portfolio using foreign exchange forwards and contracts. See Section 3.6(c) for details.

### **3.7. Permitted investments**

While the Company will invest predominantly in international listed securities, it is permitted to invest in a broad range of financial products and instruments. The types of securities and other financial products and instruments included in the Company's investable universe include:

- (a) listed securities of an entity (including exchange traded funds, options, convertible notes, rights and debentures);
- (b) cash and cash equivalent investments;
- (c) fixed income and debt securities (excluding mortgage-backed securities);

- (d) derivatives (including options, participatory notes, futures and swaps for equity, fixed income, currency, commodity and credit default exposures);
- (e) currency forwards/contracts;
- (f) unlisted securities and securities that are not traded on a recognised securities market; and
- (g) any other financial products which the Manager may use in the management of the Company's Portfolio in accordance with its AFSL.

Restrictions may apply on certain types of permitted investments as outlined in Section 3.6.

Under the Investment Management Agreement, the Manager may undertake investments in the Portfolio without the prior approval of the Board provided they are in accordance with the investment objectives, strategies, policies and guidelines agreed with the Company from time to time (initially being the Investment Strategy and guidelines in this Prospectus). In the event that a proposed investment is not in accordance with the Company's investment objective, strategies, policies and guidelines or is not a permitted investment, the Manager must obtain Board approval to make the investment.

### **3.8. Risk management philosophy and approach**

Risk is managed 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 (see Section 3.4 for details) while the top-down assessment considers risk at a Portfolio level.

The Manager uses a range of tools on a daily basis, to monitor Portfolio risk exposures including net exposure to sectors, industry groups, regions and currencies. Additional monitoring of liquidity and short-interest is completed as part of a weekly Portfolio review. A separate, comprehensive analysis of Portfolio risks is also completed at a monthly risk-review meeting.

The Company will manage risk by monitoring the Manager to ensure that the investment guidelines (initially these are the guidelines in Section 3.6) are implemented. Under the Investment Management Agreement, the Manager must report to the Board on a regular basis. These reports will allow the Board to monitor the Manager and the Portfolio to ensure ongoing compliance with the Investment Strategy and investment guidelines.

### **3.9. Dividend objective**

The Board's intention is to pay dividends franked to the maximum extent possible (payable at the end of the first financial year, and after that, semi-annually) to the extent permitted by law and the payment being within prudent business practices. This is an objective of the Company and is not intended to be a forecast. The Company may not be successful in meeting this objective.

The amount of any dividend will be at the discretion of the Board and will depend on a number of factors, including: the availability of profit reserves and franking credits, retained earnings, capital requirements, financial conditions and other factors that the Board deems relevant.

The Company has established a dividend reinvestment plan (**Plan**) for Shareholders. The terms of this Plan are summarised in Section 11.5.

### **3.10. Capital management policy**

The Board will regularly review the capital structure of the Company and, where the Board considers appropriate, undertake capital management initiatives, which may involve:

- (a) the issue of other Securities (through bonus options issues, placement, pro rata issues, etc.); and / or
- (b) the buy-back of its Securities.

### 3.11. Allocation policy

The Manager is also the manager of Australian Leaders Fund Limited (ACN 106 845 970), Watermark Market Neutral Fund Limited (ACN 163 980 498) and Watermark Market Neutral Trust (ARSN 603 495 692) (see Section 4 for details). The Manager will employ the same market neutral investment strategy for the Company as it currently uses in managing Watermark Market Neutral Fund Limited and Watermark Market Neutral Trust, but with a greater focus on international securities.

Due to the different investment focuses of the Watermark Funds, trades may be specific to a particular portfolio in which case they will not be allocated pro rata.

Where this is not the case (and trades are made across one or more of the Manager's portfolios), the Manager has an allocation policy that has been designed to pre-allocate trades on a fair and equitable basis. Under this policy, trades will be allocated across the Manager's portfolios on a pro rata basis (based on each portfolio's NAV), having regard to their respective composition, cash flows and targets from time to time. The Manager will use its portfolio management system to manage the allocation of trades and investments across its different portfolios in line with the allocation policy.

### 3.12. Valuation and custody of assets

The Portfolio's NAV will be calculated daily (released to the ASX at least monthly) using a framework for the valuation of financial instruments that is consistent with current industry practice and regulatory requirements.

The assets of the Company will be valued using market accepted practices to accurately and independently price all securities and other assets within the Portfolio from time to time.

The value of the Portfolio shall be determined by aggregating the value of each investment forming part of or comprised in the Portfolio and each investment shall be valued in accordance with the following methodology:

- (a) cash (including income) – the amount of such cash (in Australian dollars);
- (b) securities – the market value of such securities determined in accordance with Australian Accounting Standards (unless otherwise agreed by the Company and the Manager); and
- (c) other investments – if any investment is not included in (a) or (b) above, the value of that investment determined in accordance with Australian Accounting Standards.

The valuations of the Company's assets will be provided by an independent administrator. The Company is expected to engage White Outsourcing Pty Ltd as the initial administrator for the Company.

The Company has delegated custody of its Portfolio to its Prime Broker in accordance with the terms of the International Prime Brokerage Agreements (see Section 10.3 for a summary of these agreements).

### 3.13. Changes to Investment Strategy

The Investment Strategy outlined in this Section is expected to be implemented by the Manager upon listing of the Company on ASX.

While no material changes to the Investment Strategy are presently contemplated, any changes in the future would be made with the approval of the Board, after consultation with the Manager. The Company will notify Shareholders via its website and ASX of any material changes to the Company's Investment Strategy.

### 3.14. Status as a Listed Investment Company

It is intended that the Company will qualify as a listed investment company (**LIC**) under Australian taxation laws.

The major requirements the Company must meet to be a LIC are:

- (a) the Company must be listed; and
- (b) 90.0% of the Portfolio value must comprise certain permitted investments as defined in section 115-290(4) of the Income Tax Assessment Act 1997.

Permitted investments include shares, options, units (provided the Company does not own more than 10.0% of another company or trust that is not another LIC), financial instruments, derivatives and assets that generate passive income such as interest, rent and royalties.

It is expected that the Company will generally be considered to hold its investments on revenue account. Consequently, it is likely that the Company will generally not make capital gains and therefore Shareholders may not be able to obtain a deduction in relation to dividends attributable to LIC capital gains under the LIC regime.

### **3.15. Reports to Securityholders**

Within 14 days after the end of each month, the Company will release to the ASX a statement of the net tangible asset backing of its Shares as at the end of that month. The calculation of the net tangible asset backing of Shares will be made in accordance with the Listing Rules.

The Company will provide to Securityholders on request, free of charge, a copy of statements released to the ASX of the net tangible asset backing of Shares from time to time.

The Company may also release to the ASX (and place on its website) reports, prepared by the Manager from time to time, to keep Securityholders informed about the current activities of the Company, the performance of the Portfolio and the investment outlook.

## 4. About the Manager

### 4.1. Overview of the Manager

The Investment Strategy will be implemented by the Manager, Watermark Funds Management Pty Ltd, which holds AFSL number 250897.

The Manager is an active investor in Australian and international listed securities. Established in 2003 by Justin Braiting, the Manager employs a team of experienced investment professionals based in Sydney. See Section 5 for details of the Manager's investment team.

The Manager currently manages two LICs (Australian Leaders Fund Limited and Watermark Market Neutral Fund Limited) and a registered managed investment scheme (Watermark Market Neutral Trust) with aggregate funds under management in excess of \$570 million as the date of this Prospectus. See Section 4.4 for further details.

### 4.2. Role of the Manager

The Manager will be responsible for making investment decisions for the Company and to implement the Investment Strategy as per the terms and conditions set out in the Investment Management Agreement (a summary of the agreement is set out in Section 10.1).

The role of the Manager is to:

- (a) construct and manage the Company's Portfolio, made up of the Long Positions and the Short Positions, and manage and supervise all investments; and
- (b) keep the Company informed in respect of the management of the Portfolio.

### 4.3. Investment philosophy

The Manager believes a successful investor has the following skills:

- (a) an ability to evaluate the true worth of a business and the competency of the management charged with running it;
- (b) an understanding of how and why securities come to be mis-priced; and
- (c) an appreciation of the attendant risks that can compromise the investment case.

It is the Manager's view that, while the share market is generally efficient at valuing securities, from time to time mispricing does occur. This provides opportunities to accumulate Long Positions in the securities of good companies below their fair value and also to Short Sell the securities of weaker companies that trade above fair value.

By conducting deep fundamental research across a range of global industries, the Manager looks to identify these mis-priced securities, taking advantage of the following shortcomings of the share market that the Manager believes exist:

- (a) investors are often myopic, focusing on short term outcomes. The value of a business should be considered in the context of its longer term potential;
- (b) investors are unduly influenced by sentiment, overreacting to good or bad news. This often causes the price of shares to deviate from fair value; and
- (c) the likelihood of mispricing is greatest during periods of significant change as investors are often slow to interpret the full consequences of transformational events.

#### 4.4. The Investment Strategy: Relevant Experience

The Manager has established a successful track record in long/short investing across its three portfolios. Two of these portfolios (the portfolios of Watermark Market Neutral Trust and Watermark Market Neutral Fund Limited) apply a market neutral investment strategy that is the same as that of the Company.

Since December 2014, each of the Manager's investment mandates has allowed for investments in international shares.

As at 18 October 2016, the gross value of the Manager's aggregate international holdings across the Watermark Funds was approximately \$450 million (being the value of all Long and Short Positions in international securities).

The Manager's success in international investments can be seen through the strong performance of the international component of the Watermark Funds. An example of this performance is set out in Section 4.5(c).

Given the Company's Investment Strategy involves the long/short investing style the Manager employs across all portfolios, and it is the same strategy that the Manager currently employs in respect of Watermark Market Neutral Trust and Watermark Market Neutral Fund Limited, the Company considers the performance of the Watermark Funds relevant for investors assessing an investment in the Company.

#### 4.5. Historical performance

This Section contains details in relation to the historical performance of the portfolios currently managed by the Manager.

The graphs and charts detailed in this Section are not forecasts and do not represent the future behaviour of the Company or its Investment Strategy and processes. Past performance is not indicative of future performance and the performance of the Company could be significantly different to the historical performance of the Watermark Funds.

There can be no certainty that the performance of the Company will be similar to the historical performance of the Watermark Funds.

##### (a) *Australian Leaders Fund Limited – Net Cumulative Returns*

The Manager's flagship investment entity, Australian Leaders Fund Limited (**ALF**), is a LIC employing a directional long/short strategy. While there are differences between this and the Company's market neutral strategy, the Manager will employ the same security selection process for both entities.

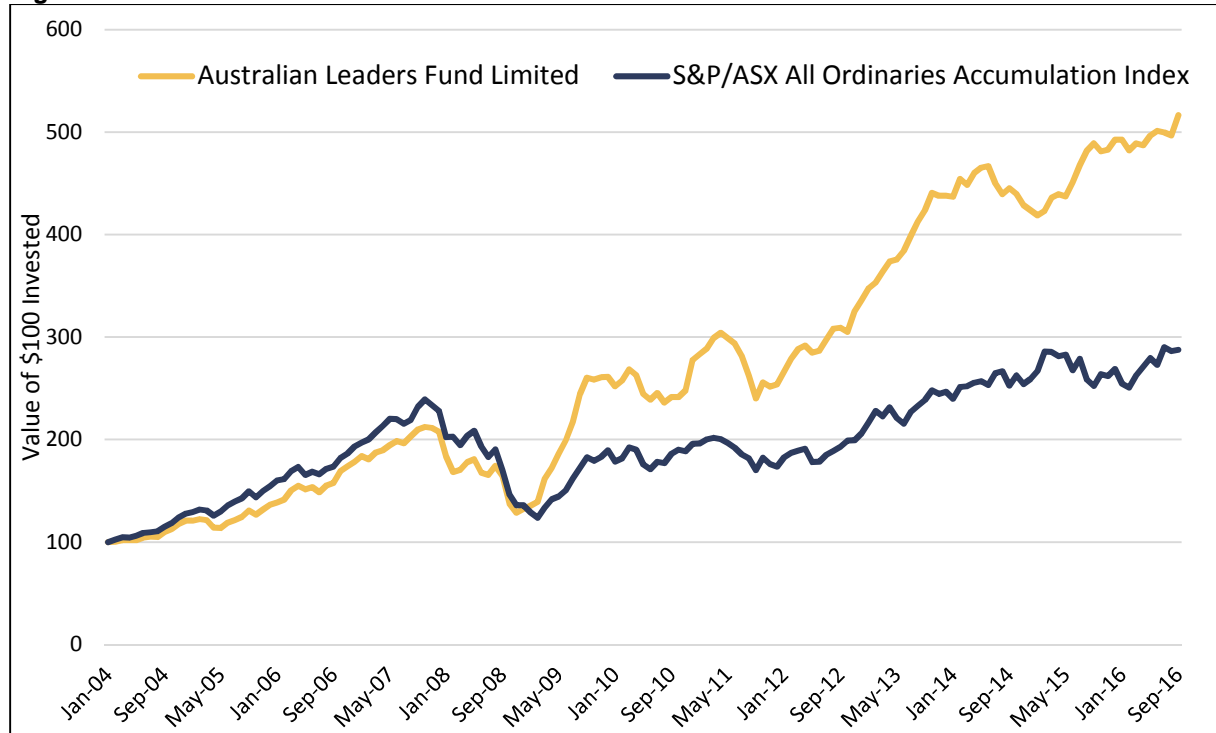
ALF has been a strong performing Australian LICs since it was launched 12 years ago.

As manager of ALF, the Manager has consistently achieved its investment objectives, outperforming its benchmark, the S&P/ASX All Ordinaries Accumulation Index, while preserving shareholders' capital during periods of market weakness.

On a cumulative basis since inception, ALF's portfolio has increased in value by 417% net of fees, before tax and dividends, compared to the S&P/ASX All Ordinaries Accumulation Index, which has increased by 188% reflecting an outperformance of 229% in absolute terms. Investors are reminded that past performance is not indicative of future performance and that the Company's Investment Strategy will differ from that of ALF in its global focus and as Long and Short Portfolios will be monitored daily and balanced on an ongoing basis.

The reported net cumulative returns of ALF's portfolio (net of fees) versus the S&P/ASX All Ordinaries Accumulation Index since inception in 2004 are illustrated in Figure 2.

**Figure 2: Net Cumulative Returns**



**Notes:**

1. The net cumulative returns of ALF's portfolio are based on monthly pre-tax NTA returns reported to the market and are net of all management and performance fees. The cumulative returns of ALF's portfolio do not reflect the actual returns on ALF shares over the same period.
2. The performance of the S&P/ASX All Ordinaries Accumulation Index is based on trading data prepared by Factset Research Systems Inc (**Factset**). Factset has not consented to the use of this data in this Prospectus.
3. The S&P/ASX All Ordinaries Accumulation Index is ALF's benchmark and has been included for comparison purposes only.
4. Past performance is not a reliable indicator of future performance. The relative returns identified above are not intended to be an indication of the future performance of the Company, the Portfolio or the market.

**(b) Performance of ALF's Long and Short Portfolios**

A common feature of all Watermark Funds, also shared by the Company, is that each holds both a Long and a Short Portfolio.

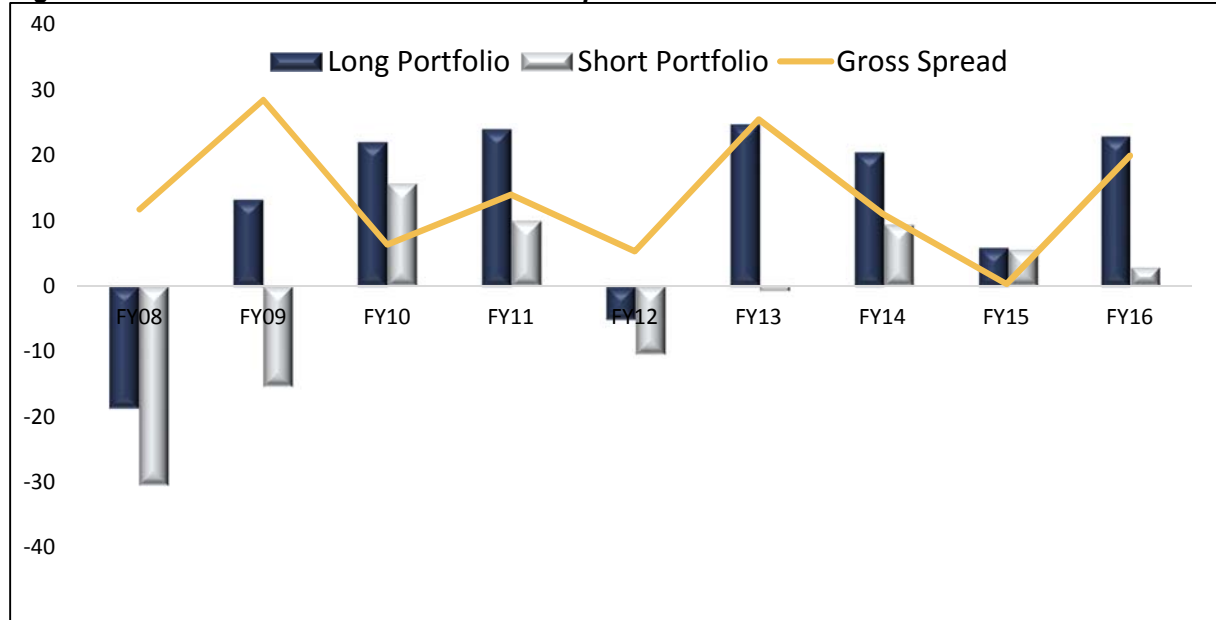
Figure 3 shows the performance of ALF's Long and Short Portfolios for each financial year ending on 30 June 2008 to 30 June 2016 and demonstrates the 'spread' that the Manager has been able to create in each of those years.

The 'spread' is the relative difference in performance between the Long and Short Portfolios and does not take account of differences in each portfolio's size, nor does it make any allowance for fees and costs. The 'spread' is purely a measure of the gross return that the Manager has created through security selection and has no relation to ALF's actual returns.

In a market neutral structure, gross profit (before any fees and expenses) reflects this performance margin plus interest on the cash at bank. The absolute direction of returns (up or down) and market movements are largely irrelevant, as it is the relative performance of the Long Portfolio versus the Short Portfolio that will generate returns for the Company.

As seen from the relative performance of ALF's Long and Short Portfolios, the Manager has successfully created a positive 'spread' in each financial year since it began recording Long Position and Short Position performance data in 2007. This information does not take into account the size of the Long and Short Portfolios, which ultimately determines the overall returns. The Board believes that the Manager's consistency in achieving its primary investment objective is an important consideration for investors in the Company.

**Figure 3: Financial Year Gross Returns and Spread for ALF Portfolio**



**Notes:**

1. Blue bars represent the gross return of ALF's Long Portfolio for each financial year ending on 30 June 2008 to 30 June 2016. The Grey bars represent the gross return of ALF's Short Portfolio over the same period.
2. Gross portfolio returns reflect the aggregate change in value of the Long and Short Portfolios and are calculated as a sum of the aggregate change in value (realised and unrealised) of positions in each portfolio in each financial year. The gross returns do not take account of fees and costs.
3. The yellow line represents the 'gross spread' or difference between the gross return of the Long and Short Portfolios in each financial year.
4. Neither the gross portfolio returns nor the 'gross spread' reflect returns on ALF shares over the relevant periods. For example, the gross portfolio returns do not take account of the relative size of ALF's Long and Short Portfolios nor the return on ALF's cash holdings.
5. Past performance information given on this page relates to the portfolios of ALF and is given for illustration purposes only. It should not be relied upon as (and is not) an indication of future performance of the Company's Portfolio. The actual results of the Company's Portfolio could differ materially from those referred to on this page, including due to the different strategies to be adopted by the Manager in connection with the Company's Portfolio.
6. Investors are reminded that when the market performs strongly, a market neutral portfolio will not have exposure to a positive market return as market risk is minimised. In such instances, a market neutral portfolio may underperform as it will have limited correlation to the positive market movement.



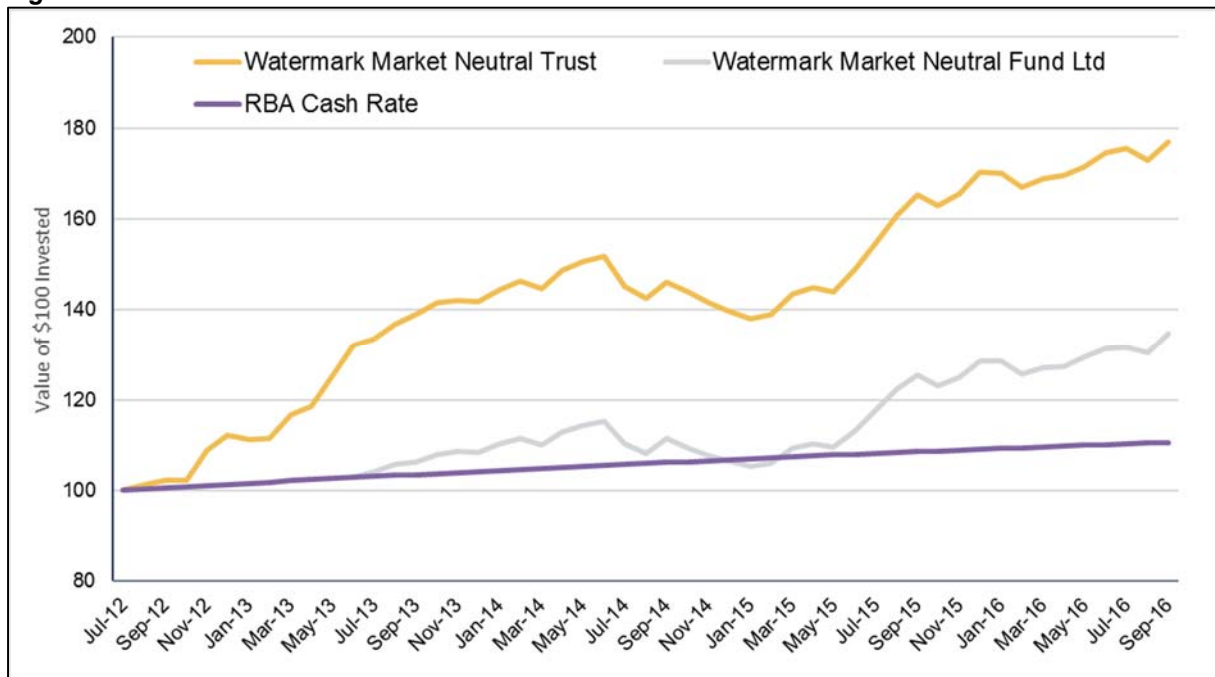
(c) *Net Cumulative Returns for the Manager's market neutral Portfolios*

Two of the Watermark Funds managed by the Manager employ the same market neutral investment strategy as the Company which incorporate both international and domestic investments. Watermark Market Neutral Trust (**Trust**) is a registered managed investment scheme, which was launched in August 2012. Watermark Market Neutral Fund Limited (**WMK**) is a LIC, which launched in July 2013.

The net cumulative returns of the Trust's portfolio and WMK's portfolio since their respective dates of inception are illustrated in Figure 4.

The chart conveys the accumulated return on \$100 invested in the Trust from inception in August 2012 to 30 September 2016. It compares this return to the accumulated return on \$100 invested at the RBA Cash Rate from August 2012 to June 2013 and from July 2013 to September 2016 according to WMK's portfolio return. The investment return at the RBA Cash Rate has also been provided as a benchmark to assist in comparing what return might have been available had the initial \$100 remained invested at the RBA Cash Rate over the whole period.

**Figure 4: Net Cumulative Returns**



**Notes:**

1. The performance of the Trust is based on monthly exit prices since the Trust's inception in August 2012 to 31 August 2016.
2. The performance of the WMK portfolio is based on monthly pre-tax NTA returns and is net of all management and performance fees. The cumulative returns of WMK's portfolio do not reflect the actual returns on WMK shares over the same period.
3. The performance of the RBA Cash Rate is based on data prepared by the Reserve Bank of Australia. The Reserve Bank of Australia has not consented to the use of RBA Cash Rate data in this Prospectus. The S RBA Cash Rate is the benchmark used by the Trust and WMK and has been included for comparison purposes only.
4. Past performance information given on this page relates to the portfolios of the Trust and WMK and is given for illustration purposes only. It should not be relied upon as (and is not) an indication of future performance of the Company's Portfolio.

(d) *WMK's international Long and Short Positions*

Since December 2014, the investment mandates for each Watermark Fund have allowed for investments in international shares. Since this time, each of these funds has invested in both domestic and international securities, with the international portfolios of Long and Short Positions being discrete subsets of the overall portfolio and capable of measurement.

As of 1 July 2015, the Manager was responsible for international Long and Short Portfolios each valued in excess of \$40,000,000 across both WMK and ALF. This value exceeds the minimum net asset value for the Company' Portfolio. If the Company were to raise only the minimum amount under the Offer, the Company's portfolio would look materially similar to the combined WMK and ALF international portfolio.

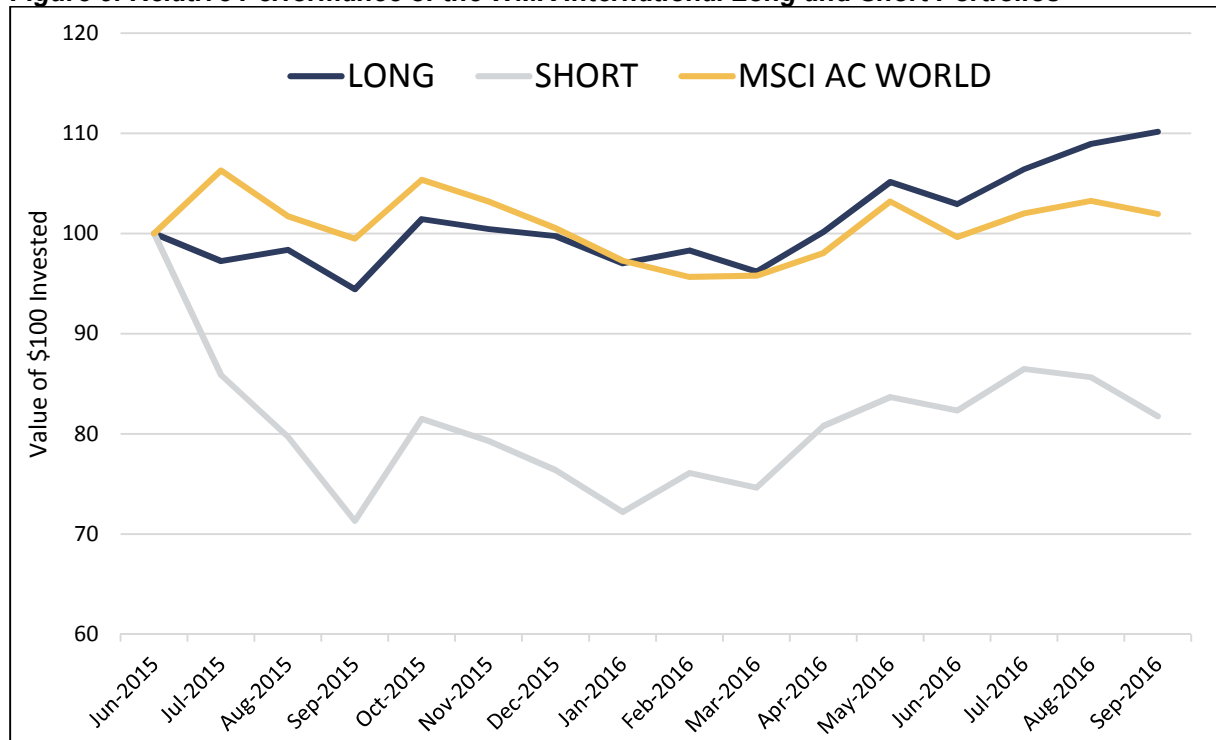
For these reasons the Directors consider the performance of WMK's international portfolio most relevant to investors in the Company.

Historical performance of the WMK International Long and Short Portfolios illustrated in Figure 5 is presented from 1 July 2015 to 30 September 2016.

Over the period from 1 July 2015 to 30 September 2016, the value of WMK's international Long Portfolios increased by 10%, while its international Short Portfolio decreased by 18%. This equates to an aggregate spread of 28% between the WMK International Long and Short Portfolios.

For comparison purposes only, Figure 5 includes the performance of the MSCI AC World Net Index over the same period. Figure 5 shows that the MSCI AC World Net Index increased by 2% over the same period.

**Figure 5: Relative Performance of the WMK International Long and Short Portfolios**



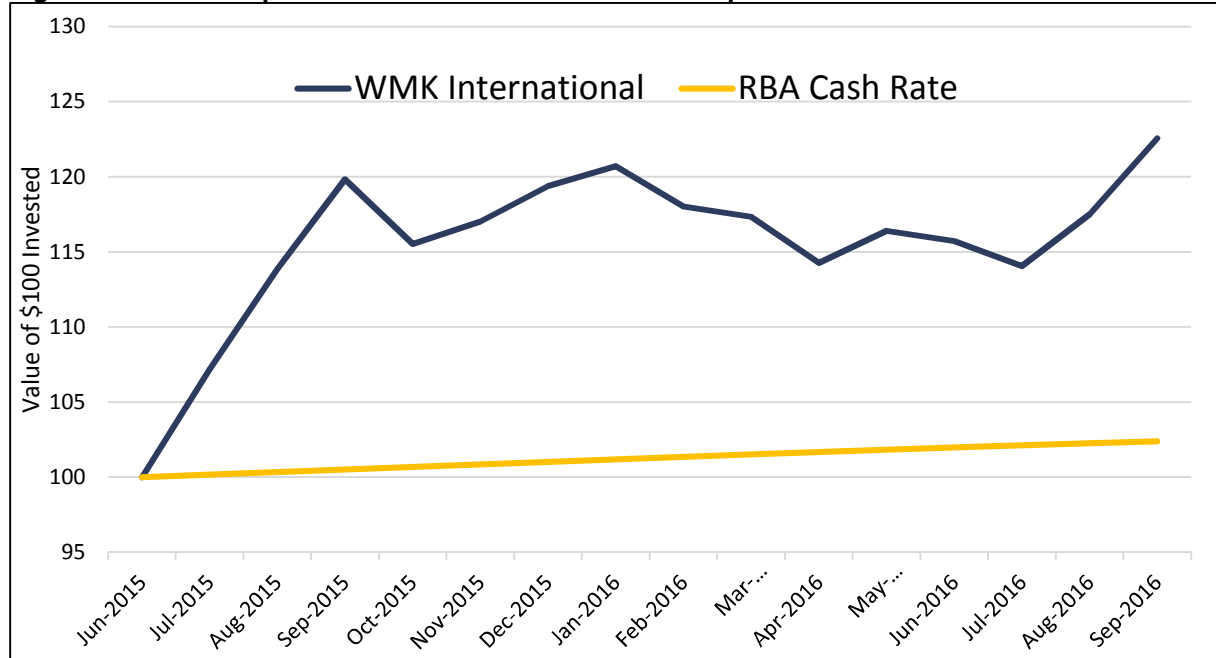
**Notes:**

1. Figure 5 is not intended to be an indication of future performance of any asset class, index or the Portfolio.
2. The performance of the Long and Short Portfolios above is based on gross monthly returns and excludes management fees and other costs.
3. The performance of the MSCI AC World Net Index is based on trading data prepared by MSCI Inc. MSCI Inc. has not consented to the use of this data in this Prospectus. The MSCI AC World Net Index has been chosen as a comparison because it is a global index in Australian dollars that is a commonly used measure of global equities performance.

The graph below conveys the pro forma net performance of the international component of WMK's portfolio in the period from 1 July 2015 to 30 September 2016. It illustrates \$100 invested in the international portfolio of WMK (as seen in Figure 5) with accrual of portfolio costs and management and performance fees versus the RBA Cash Rate, which is the Company's benchmark.

During this period and using the assumptions set out below the graph, the international component of WMK's portfolio has generated a pro forma cumulative return of 22.6%.

**Figure 6: Pro forma performance of WMK's international portfolio**



**Notes:**

- The pro forma WMK's international portfolio return is based on the actual monthly returns of the international investments within WMK's portfolio and is calculated based on the following assumptions:
  - the average of actual monthly long and short portfolio weightings;
  - the apportionment of stock loan fees to WMK's international portfolio with the weighting equivalent to the portfolio weight;
  - the apportionment of interest received and paid away in line with portfolio weight;
  - the payment of management fees and performance fees based on the Management and Performance Fees payable to the Manager as outlined in Section 10.1; and
  - before other company costs and tax.
- The performance of WMK's international portfolio is not a reflection of the return from an investment in the Company.

## 5. Watermark Investment Team

### 5.1. Introduction

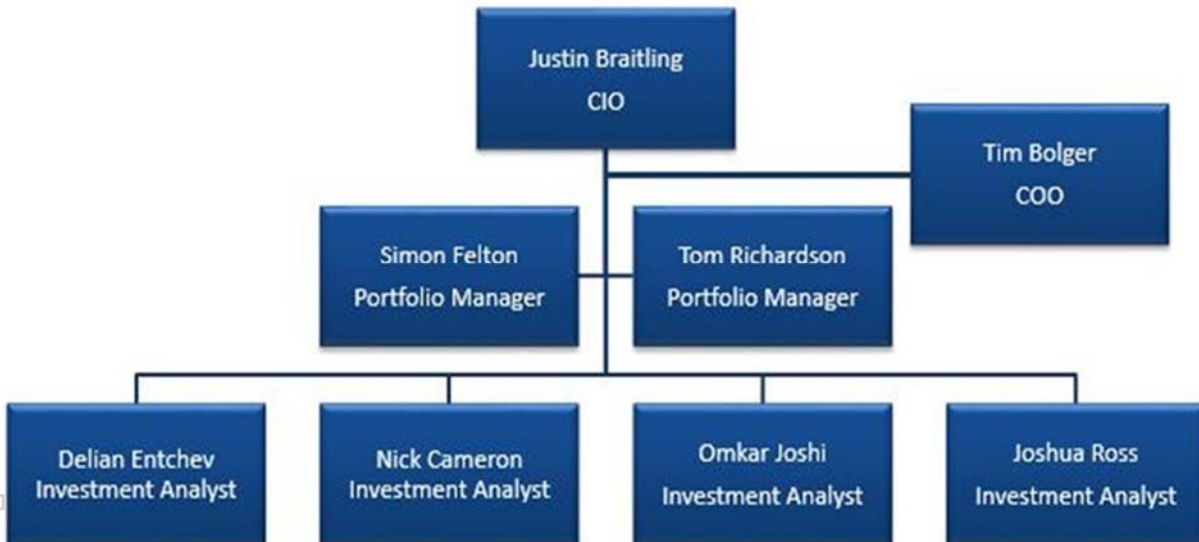
As at the date of this Prospectus, the Manager's investment team (**Watermark Investment Team**) comprises 8 highly experienced investment professionals with deep expertise across different industries (See Section 5.2 for details of each member's experience). The Company will be able to draw upon and benefit from this depth and breadth of experience in the construction and maintenance of the Portfolio.

The Watermark Investment Team is responsible for managing in excess of \$570 million (as at the date of this Prospectus) across three portfolios. The Manager considers each member of the Watermark Investment Team to have extensive skills and experience in analysing listed securities and to be an expert in a particular industry sector, or possess specific product skills (e.g. listed market dealing, transaction structuring, quantitative analysis and legal).

Since December 2014, the Manager's mandates have allowed for investments in international securities. Prior to this, analysis of international companies formed an integral part of the Manager's research on Australian companies. The Manager believes that it is well placed to manage the Company's Portfolio.

The Manager considers that each member of the Watermark Investment Team will be available to devote the amount of time required for the Manager to properly perform its functions in managing the Company's Portfolio in accordance with the Investment Management Agreement.

There have been no adverse regulatory findings against the Manager or any member of the Watermark Investment Team.



## 5.2. Watermark Investment Team members



### **Justin Braitting – Chief Investment Officer, Lead Portfolio Manager**

Justin is the founder and CIO of the Manager. He has portfolio management responsibility across all of the Manager's portfolios.

Justin has over 25 years' experience in investing in Australian and international securities. He established the Manager in 2003 as an absolute return investment manager. Prior to founding the Manager, Justin was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002. He was a key member of the investment team at Bankers Trust that was consistently ranked in the top quartile of managers by independent investment consultant InTech.

Justin has been a director of Australian Leaders Fund Limited since October 2003 and became chairman in February 2007. Justin is also a director of Watermark Market Neutral Fund Limited



### **Tom Richardson, CFA – Portfolio Manager**

Tom is a Deputy Portfolio Manager and Investment Analyst, responsible for coverage of Basic Industries.

Tom joined the Manager in December 2009.

Prior to this, Tom began his career as an Investment Analyst with Renaissance Asset Management in 2006. Tom holds a Bachelor of Aerospace Engineering from the University of Sydney and is a CFA charter holder.



### **Simon Felton, CFA - Portfolio Manager**

Simon is a Deputy Portfolio Manager and Investment Analyst, responsible for coverage of Industrial sectors.

Simon joined the Manager in September 2016. He was previously an investment analyst at Platinum Asset Management for 12 years, where he covered a range of geographies and industries, including Industrial, Automotive and Retail.

Prior to this, he was a lawyer at Blake Dawson Waldron (now known as Ashurst) specialising in mergers and acquisitions. Simon holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales and is a CFA charter holder.



### **Joshua Ross, CFA – Investment Analyst**

Joshua is an Investment Analyst, responsible for coverage of the Retail and Consumer sectors.

Joshua joined the Manager in April 2010. He holds a Bachelor of Applied Finance and a Bachelor of Commerce (Accounting) from Macquarie University. Joshua is a CFA charter holder.



### **Omkar Joshi, CFA – Investment Analyst**

Omkar is an Investment Analyst, responsible for coverage of Financials.

Omkar joined the Manager in October 2013 after completing an accounting cadetship with KPMG and having worked as an equity research analyst in Credit Suisse's banks team.

Omkar holds a Bachelor of Commerce (High Distinction) from the University of New South Wales, was a Dean's Award recipient in each year of study, and completed one semester at the Wharton School, University of Pennsylvania. Omkar is a CFA and CMT charter holder.

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**Delian Entchev – Investment Analyst**

Delian is an Investment Analyst, responsible for coverage of the Technology, Media and Telecommunications sectors.

Delian joined the Manager in August 2014. Prior to this, he was undertaking a cadetship with UBS as an Equity Research Analyst covering the Utilities and Building Materials sectors.

Delian holds a Bachelor of Commerce (High Distinction) from the University of New South Wales, was a Dean's Award recipient in each year of study, and completed one semester at the Wharton School, University of Pennsylvania.

**Nick Cameron – Investment Analyst**

Nick is an Investment Analyst, responsible for coverage of the Healthcare sector.

Nick joined the Manager in March 2015. He began his career in finance with KPMG in 2008, before moving into Equities Analyst roles with Credit Suisse and Deutsche Bank. Prior to joining the Manager, Nick was an investment analyst at GenesisCare, a large, privately owned medical services provider.

Nick has a background in science, holding bachelor degrees in Science and Biotechnology and a PhD from Griffith University in the fields of Molecular Biology and Neuroscience.

**Tim Bolger – Chief Operating Officer**

Tim is responsible for all non-investment functions at Watermark, including operations, distribution, marketing and compliance.

Tim joined the Manager in 2014. He brings extensive experience in the development, marketing and distribution of investment and insurance products throughout Australia and internationally. Prior to joining the Manager, Tim was a Director of Distribution at Bennelong Funds Management.

Tim holds a Bachelor of Arts and a Diploma in Law.

## 6. Risk Factors

### 6.1. Introduction

There are certain risks generally associated with investing in the securities of publicly listed companies, some of which are set out in Section 6 below. There are also other risks associated more specifically with the Company, including its investment objective and strategies and the Manager. Key specific risks are set out in Sections 6.2 and 6.3 below.

Some of the events and circumstances described below may negatively impact the Company's investment performance and NTA backing per Share, which may in turn cause the market price of the Company's Shares and Options to fall and may result in the loss of income and the principal invested. The market price of the Shares and Options may also be directly affected by some of the events and circumstances described below.

While the Company and the Manager have put in place various corporate governance, compliance and risk management systems (see Section 3.8 for details) to mitigate risks, neither the Company nor the Manager can guarantee that these safeguards and systems will be effective. Some risks are outside the control of the Company, the Directors, the Manager and its directors and employees, and cannot be mitigated.

Before making a decision on whether to apply for any Securities under the Offer, you are urged to carefully consider the risks described in this Section 6, which is not an exhaustive list of all the possible risks associated with investing in the Company, as well as any other risk factors that you may consider relevant to such investments. Your financial adviser can assist you in determining the risks of investing in the Company and whether it is suited to your needs and circumstances.

### 6.2. Key Investment Strategy risk

The Company's investment activities will expose it to a variety of risks. The Company has identified some of them as being particularly relevant to its Investment Strategy, namely:

- (a) The Company's performance depends on the expertise and investment decisions of the Manager. The success and profitability of the Company largely depends on the ability of the Manager to construct Long and Short Portfolios that are balanced. Its opinion about the intrinsic worth of a company or security may be incorrect and the Company's investment objective may not be achieved. Should the Manager become unable to perform investment management services for the Company or should there be significant key personnel changes at the Manager, the Company's investment activities may be disrupted and its performance negatively impacted. Even if the Company does not perform well, it may be difficult to remove the Manager.
- (b) The success and profitability of the Company largely depends upon the retention of the Manager as manager of the Portfolio of the Company. See Section 10.1 for details on the Investment Management Agreement. The ability of the Manager to continue to manage the terms of the Portfolio may be compromised by such events as the loss of its AFSL or its non-compliance with conditions under its AFSL or the Corporations Act. If the Manager ceases to manage the Portfolio or the Investment Management Agreement is terminated, the Company will need to identify and engage a suitably qualified and experienced manager to implement the Company's Investment Strategy.

### 6.3. Significant risks of investing in the Company

The following risks should be carefully evaluated before making an investment in the Company. Consideration must also be given to the speculative nature of the Company's investments. The following is not an exhaustive list of the risks of investing in the Company.

#### *Short selling risk*

There are inherent risks associated with short selling. Short selling involves borrowing securities that are then sold. If the price of the securities falls, then the Company can buy those securities at a lower price to transfer back to the lender of the securities.

Short Selling can be seen as a form of leverage and may magnify the gains and losses achieved in the Portfolio. As the Manager must first borrow a security to establish a Short Position, there is a risk that a security will not be available at a particular time or an acceptable price and therefore the Manager may not be able to implement its Investment Strategy. While short selling may be used to manage certain risk exposures in the Portfolio and increase returns, it may also have a significantly increased adverse impact on its returns. The use of short selling may cause losses associated with changes in market conditions (such as fluctuations in interest rates, equity prices or exchange rates). Also changes in the value of a Short Position may not correlate perfectly with the underlying asset.

Short Positions may be highly volatile and can create investment leverage, which could cause the Company to lose more than the amount of assets initially contributed to the transaction. Short Positions may also be subject to liquidity risk or counterparty risk. Depending on market conditions, Short Positions can be costly or difficult to reverse. Short selling exposes the Portfolio to the risk that investment flexibility could be restrained by the need to provide collateral to the securities lender and that positions may have to be liquidated at a loss and not at a time of the Manager's choosing.

The Company uses the service of a Prime Broker and Custodian and must post Collateral with the Prime Broker under this agreement (see Section 10.3 for further details of this arrangement). In the event of insolvency of the Custodian or the Prime Broker, the Company may not be able to recover the entire value of the relevant securities.

In light of these risks, the Company has adopted the short selling policy in Section 3.6.

#### *Leverage risk*

While the Manager will not use debt to increase the scale of the Portfolio of the Company, the use of derivatives and short selling may have an effect similar to leverage in that it can enlarge the gains and losses achieved in the Portfolio in a manner similar to a debt leveraged portfolio. These risks give rise to the possibility that positions may have to be liquidated at a loss and not at a time of the Manager's choosing. In light of these risks, the Company has adopted the leverage policy in Section 3.6.

#### *Market risk (at the Portfolio level)*

The Portfolio will be constructed so as to minimise market risks. Broad market risks include: movements in domestic and international securities markets, movements in foreign exchange rates and interest rates, changes in taxation laws and other laws affecting investments and their value. 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. These events may include: changes in economic, social, technological or political conditions, as well as market sentiment. In a strong share market, the Portfolio may underperform the market indices, as the Portfolio will have limited exposure to market risk. The Manager will seek to minimise market and economic risks, but cannot eliminate them entirely as part of its Investment Strategy. The value of the Portfolio may be impacted by such factors.

#### *Equity risk*

There is a risk that securities will fall in value over short or extended periods of time. security markets tend to move in cycles, and individual share prices may fluctuate and underperform other asset classes over extended periods of time.

Holders of Securities in the Company are exposed to this risk both through their holdings in Shares and Options in the Company as well as through the Portfolio. In respect of the equity risk within the Portfolio, the Company's Investment Strategy aims to minimise this risk through the construction of balanced Long and Short Portfolio and the Manager's careful analysis of each security the Company invests in.

#### *Asset risk*

If the assets and liabilities within the Company's Long and Short Portfolios are not balanced, a Long Position falling in value or a Short Position rising in value could result in a reduction of the value of your investment. To manage this risk, the Company's Investment Strategy restricts any net equity exposure and individual positions within the Portfolio to  $\pm 20\%$  of the Portfolio NAV.



*Derivative risk*

The Manager is permitted to use derivatives to manage risk within the Portfolio and to take opportunities to increase returns.

Use of derivative may cause losses associated with changes in market conditions (such as fluctuations in interest rates, equity prices or exchange rates). Also changes in the value of a derivative may not correlate perfectly with the underlying asset. Derivative transactions may be highly volatile and can create investment leverage, which could cause the Company to lose more than the amount of assets initially contributed to the transaction. When the Company enters into a derivatives arrangement that requires it to deliver Collateral or other credit support to the derivatives counterparty, the Company will be exposed to the following additional risks in respect of that Collateral. The Company:

- (a) may be required to post upfront margin/Collateral with the derivatives counterparty (whether cash or other securities). The Company will need to have sufficient liquid assets to satisfy this obligation;
- (b) may, from time to time if the value of the derivatives arrangements moves against it, be required to post additional Collateral with the derivatives counterparty. The Company will need to have sufficient liquid assets to satisfy such calls, and in the event it fails to do so, the derivatives counterparty may have the right to terminate such derivatives arrangements; and
- (c) will be subject to credit risk on the derivatives counterparty. In the event the derivatives counterparty becomes insolvent at a time it holds margin/Collateral posted with it by the Company, the Company will be an unsecured creditor of the derivatives counterparty, and will rank behind other preferred creditors such as secured creditors and other creditors mandatorily preferred by law. To mitigate this credit risk, the Manager and the Company will seek to deal with only with counterparties that are institutions subject to prudential supervision.

In light of the above risks, the Company has adopted the derivatives policy in Section 3.6.

*Currency risk*

Investing in assets denominated in a currency other than the Australian dollar may cause losses resulting from exchange rate fluctuations. For example, if the Australian dollar rises, the value of international investments expressed in Australian dollars can fall. The Manager will actively manage currency risk by balancing exposures to each foreign currency across the Company's Long and Short Portfolios.

*Counterparty risk*

Investment in securities and financial instruments generally involves third parties as counterparties to contracts. Use of third parties carries risk of default, which could adversely affect the value of the Company.

The Company will outsource key operational functions including investment management, custody, and administrative support services (i.e. accounting and company secretarial services) to a number of third party service providers.

There is a risk that third party service providers may breach their obligations to the Company or provide services below standards, which are expected by the Company, causing loss to the Company. The Company aims to keep this risk to a minimum by regularly monitoring its key service providers.

There is also a risk of loss resulting from the insolvency or bankruptcy of a counterparty used by the Manager to execute trades. For example, the Company uses the service of a Prime Broker and Custodian and must post Collateral with the Prime Broker. In the event of insolvency of the Custodian or the Prime Broker, the Company may not be able to recover the entire value of the relevant securities. The Manager aims to keep this risk to a minimum by regularly monitoring the counterparties.

*Liquidity risks*

Investments that trade less can be more difficult or more costly to buy, or to sell, than more liquid or active investments. There is a risk that one or more of the securities in the Portfolio (from time to time) may become illiquid. This can result in a loss if the Company needs to sell it within a particular time frame.

The Manager will seek to minimise liquidity risks by:

- (a) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and
- (b) being aware of liquidity when constructing and managing the Portfolio to ensure that there is no undue concentration of liquidity risk to a particular counterparty or market.

*Compensation fee structure risk*

The Manager will receive compensation based on the Company's performance. Performance Fee arrangements may create an incentive for the Manager to make more speculative or higher risk investments than might otherwise be the case.

*Concentration risk*

The Company's Portfolio may be less diversified than other listed investment entities. This is consistent with the Investment Strategy which focuses on balancing the Company's Long and Short Portfolios rather than diversity to generate returns and manage capital loss

*Company risk*

The Company is a new entity with no operating history and no proven track record.

*Foreign investment risk*

The Company's investment objective and strategies are focused on international securities. Investments in foreign companies may be exposed to a higher degree of sovereign, political, economic, market and corporate governance risks than domestic investments. Investments in foreign companies may decline in value because of sovereign, political, economic or market instability; the absence of accurate information about the companies; risks of unfavourable government actions such as expropriation and nationalisation. Other countries may have different legal systems, taxation regimes, auditing and accounting standards with less governmental regulation and transparency. These risks may be higher when investing in emerging markets.

The Company aims to minimise this risk through the Manager's careful analysis of each security the Company invests in and the Manager's strategy of constructing balanced Long and Short Portfolios.

*Interest rate risk*

Interest rate movements may adversely affect the value of the Company through their effect on the price of a security. The Company is exposed to movements in Australian interest rates as well as movements to interest rates in each jurisdiction it holds investments. The Manager aims to minimise this risk by balancing exposures to each foreign currency in the Long and Short Portfolios and through an active treasury management program. See Section 3.6(d) for further information.

*Regulatory risk*

All investments carry the risk that their value may be affected by changes in laws and regulations, especially taxation laws. Regulatory risk includes risk associated with variations in the taxation laws of Australia or other jurisdictions in which the Company holds investments. The Manager's careful analysis of each company it invests in, as well as maintaining a diversified portfolio of companies, aims to minimise this risk.

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#### 6.4. Risks associated with investment in Shares and Options

The prices at which Shares and Options will trade on the ASX are subject to a number of risks, including:

##### *Operational costs*

Operational costs for the Company as a proportion of total assets will be affected by the level of total assets of the Company and by the level of acceptance of this Offer. If the Company only achieves the Minimum Subscription under the Offer, operational costs will represent a greater proportion of total assets and will reduce the operating results of the Company and accordingly, the ability to pay dividends. For the avoidance of doubt, these expenses would be in addition to the Management Fees and Performance Fees that the Company pays the Manager which are discussed in more detail in Section 10.1.

The Manager has extensive experience in the operation and management of LICs and will bring its economies of scale to bear in negotiating agreements with relevant service providers. Based on an estimation by the Manager of the operational costs the Company will incur in its first year of operation, it is expected that as a percentage of the Company's capital, annual operational costs may fall within a range between 0.3% if the Company raises the full amount (excluding Oversubscriptions) under the Offer and 0.8% if the Company raises the Minimum Subscription under the Offer.

##### *Dividend risk*

The Company's ability to pay a fully or partly franked dividend is contingent on it making taxable profits. No guarantee can be given concerning the future earnings of the Company, the earnings and capital appreciation of the Company's Portfolio or the return of your investment. The Manager may make poor investment decisions, which may result in the Portfolio's return being inadequate to pay dividends to Securityholders.

##### *Market risk*

Share markets tend to move in cycles, and individual securities prices may fluctuate and underperform other asset classes over extended periods of time. The value of Shares and Options listed on the ASX may rise or fall depending on a range of factors beyond the control of the Company. Shareholders in the Company are exposed to this risk both through their holding in Shares and Options as well as through the Company's Portfolio.

##### *Economic risk*

Investment returns are influenced by numerous economic factors. These factors include: changes in the economic conditions (e.g. changes in interest rates or economic growth), changes to the legislative and political environment, as well as changes in investor sentiment.

In addition, exogenous shocks, natural disasters and acts of terrorism and financial market turmoil (such as the global financial crisis) can (and sometimes do) add to equity market volatility as well as impact directly on individual entities. As a result, no guarantee can be given in respect of the future earnings of the Company or the earnings and capital appreciation of the Company's Portfolio or appreciation of the Company's Share price.

##### *Liquidity risk*

The Company will be a listed entity, therefore the ability to sell Shares and Options will be a function of the turnover of the Shares and Options at the time of sale. Turnover itself is a function of the size of the Company and also the cumulative investment intentions of all current and possible investors in the Company at any one point in time.

##### *Discount to NTA*

The Company will be listed on the ASX and may not trade in line with the underlying value of the Portfolio. The Company may trade at a discount or a premium to its NTA.

**6.5. Other risk factors**

Before deciding to subscribe for Securities, investors should consider whether Shares and Options are a suitable investment.

There may be tax implications arising from the Application for Shares and Options, the receipt of dividends (both franked and unfranked) from the Company, participation in any Plan of the Company, participation in any on market share buy-back and on the disposal of Shares or Options. Investors should carefully consider these tax implications and obtain advice from an accountant or other professional tax adviser in relation to the application of tax legislation.

If you are in doubt as to whether you should subscribe for Shares and Options, you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser immediately.

**6.6. Time frame for investment**

Investors are strongly advised to regard any investment in the Company as a long term proposition (5+ years) and to be aware that, as with any equity investment, substantial fluctuations in the value of their investment may occur over that period.

In addition, the above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities. Therefore, there is no guarantee with respect to the payment of dividends, returns of capital or the market value of the Securities.

You should consider that an investment in the Company is speculative and consult your professional adviser before deciding whether to apply for the Securities.

## 7. Financial Position of the Company

### 7.1. Proceeds of the Issue

The Board intends to use the funds raised from the Offer for investment consistent with the investment objectives and investment process set out in Section 3.

### 7.2. Unaudited pro forma balance sheet

The pro forma balance sheets set out below have been prepared to illustrate the effects of the pro forma adjustments described below for the different subscription amounts as if they had occurred on 30 August 2016, being the incorporation date of the Company, including:

- (a) completion of the Offer based on each of the amounts indicated being raised; and
- (b) payment of expenses (which have been deducted from the cash amount) which consist of the Offer related expenses in accordance with Section 7.6 below.

It is intended to be illustrative only and it neither reflects the actual position of the Company as at the date of this Prospectus nor at the conclusion of the Offer.

The pro forma balance sheets have been prepared in accordance with the accounting policies set out in Section 7.7 below.

**Watermark Global Leaders Fund Limited**  
**Unaudited Pro Forma Balance Sheet**  
**Assumes completion of the Offer**

The unaudited pro forma balance sheets are presented in summary form only and do not comply with the presentation and disclosure requirements of Australian Accounting Standards. The information in this Section should also be read in conjunction with the risk factors set out in Section 6 and other information contained in this Prospectus.

|                                      | Minimum<br>Subscription<br>\$40,000,000<br>(\$'000) | Subscription<br>\$75,000,000<br>(\$'000) | Maximum<br>Subscription<br>\$110,000,000<br>(\$'000) | Over<br>Subscription<br>\$150,000,000<br>(\$'000) |
|--------------------------------------|---|--|--|---|
| Assets                               |   |  |  |   |
| Cash                                 | 38,508  | 72,593                                   | 106,625  | 145,465   |
| Receivables                          | 64  | 124                                      | 188  | 264   |
| Deferred Tax Asset                   | 428   | 685                                      | 956  | 1,281   |
| Total Assets                         | 39,000  | 73,402                                   | 107,769  | 147,010   |
| Total Liabilities                    | -   | -  | -  | -   |
| Net Assets                           | 39,000  | 73,402                                   | 107,769  | 147,010   |
| Equity                               |   |  |  |   |
| Contributed Equity                   | 40,000  | 75,000                                   | 110,000  | 150,000   |
| Less: Capitalised costs of the offer | (999)   | (1,597)                                  | (2,230)  | (2,989)   |
| Costs not eligible to be capitalised | (1)   | (1)                                      | (1)  | (1)   |
| Total Equity                         | 39,000  | 73,402                                   | 107,769  | 147,010   |
| NAV backing per Share (\$)           | 1.073   | 1.077                                    | 1.078  | 1.078   |

### 7.3. Capital structure

The anticipated capital structure of the Company on completion of the Issue is set out below:

|                  | <b>Minimum<br/>Subscription<br/>\$40,000,000</b> | <b>Subscription<br/>\$75,000,000</b> | <b>Maximum<br/>Subscription<br/>\$110,000,000</b> | <b>Over<br/>Subscription<br/>\$150,000,000</b> |
|------------------|--|--------------------------------------|---|--|
| Shares on issue  | 36,363,637                                       | 68,181,819                           | 100,000,001                                       | 136,363,637                                    |
| Options on issue | 36,363,636                                       | 68,181,818                           | 100,000,000                                       | 136,363,636                                    |

As at the date of this Prospectus, Justin Braithling holds the sole Share on issue in the Company.

### 7.4. Cash

A reconciliation of the pro forma balance sheets for cash is as below:

|   | <b>Minimum<br/>Subscription<br/>\$40,000,000<br/>(\$)</b> | <b>Subscription<br/>\$75,000,000<br/>(\$)</b> | <b>Maximum<br/>Subscription<br/>\$110,000,000<br/>(\$)</b> | <b>Over<br/>Subscription<br/>\$150,000,000<br/>(\$)</b> |
|---|---|---|--|---|
| Initial Subscriber Share                              | 1   | 1   | 1  | 1   |
| Proceeds of Offer                                     | \$40,000,000  | \$75,000,000                                  | \$110,000,000  | \$150,000,000   |
| Expenses of Offer (net of tax) – refer to Section 7.6 | 999,576   | 1,598,216                                     | 2,231,444  | 2,989,728   |
| Deferred Tax Asset                                    | 428,390   | 684,950                                       | 956,333  | 1,281,312   |
| GST Receivable  | 63,750  | 123,750                                       | 187,688  | 264,375   |
| <b>Estimated net cash position</b>                    | <b>38,508,286</b>   | <b>72,593,086</b>                             | <b>106,624,536</b>   | <b>145,464,586</b>                                      |

### 7.5. Assumptions

These unaudited pro forma balance sheets and the information in Sections 7.2, 7.3 and 7.4 have been prepared on the basis of the following assumptions:

- Application of the proposed accounting policies and notes to the accounts set out in Section 7.7.
- In the unaudited pro forma balance sheet entitled "Minimum Subscription \$40,000,000", the reference is to issuing 36,363,636 Shares and Options to Applicants under this Prospectus.
- In the unaudited pro forma balance sheet entitled "Subscription \$75,000,000", the reference is to issuing 68,181,818 Shares and Options to Applicants under this Prospectus.
- In the unaudited pro forma balance sheet entitled "Maximum Subscription \$110,000,000", the reference is to issuing 100,000,000 Shares and Options to Applicants under this Prospectus.
- In the unaudited pro forma balance sheet entitled "Over Subscription \$150,000,000", the reference is to issuing 136,363,636 Shares and Options to Applicants under this Prospectus.
- The Company will derive income of a sufficient nature and amount to enable recognition of a deferred tax asset for the capital raising costs.

- (g) The costs incurred by the Company in respect of the Offer referred to in this Section are net of deferred tax asset, in accordance with accounting standards and the accounting policy note in Section 7.7. This means that the tax benefit (a 30% tax deduction) is applied to these costs to reduce them by 30%. The cash outlay of an expense is gross of this tax benefit. For example, an outlay described in this Section as \$70 (net of tax) is a cash outlay of \$100 less the tax benefit of a \$30 income tax deduction.
- (h) Expenses of the Offer have been paid and are recognised in equity net of tax (refer to Section 7.6).
- (i) The Company will pay a Broker Firm selling fee equal to 1.5% (plus GST) of the Application Monies provided with valid Application Forms bearing a Licensee's stamp to the extent Shares and Options are allotted under the Broker Firm Offer and the Applications or commitments to lodge Application Forms (with respect to the Broker Firm Offer) are received before the Closing Date. No fee will be payable on General Offer or Priority Allocation Applications.
- (j) For the purpose of the unaudited pro forma balance sheet, it has been assumed that the Broker Firm selling fee of 1.5% (plus GST) will be paid on:
- (i) 75% of Applications in respect of the Minimum Subscription of \$40,000,000;
  - (ii) 80% of Applications in respect of the Subscription of \$75,000,000;
  - (iii) 85% of Applications in respect of the Maximum Subscription of \$110,000,000; and
  - (iv) 90% of Applications in respect of the Oversubscription of \$150,000,000.
- (k) The Company will pay Taylor Collison Limited an arranger fee equal to 0.05% (plus GST) of the total proceeds raised under the Offer and the Joint Lead Managers a management fee equal to 1.20% (plus GST) of the total proceeds raised under the Offer (with each Joint Lead Manager receiving one fifth of this management fee). In addition, the Company will pay to each Joint Lead Manager a Broker Firm selling fee of 1.5% (plus GST) of the total proceeds of the Broker Firm Offer raised by the relevant Joint Lead Manager and their associated Brokers.

## 7.6. Expenses of the Offer

The Company will pay from the proceeds of the Offer the expenses of the Offer including legal, accounting and taxation, printing and initial ASX listing fees.

These expenses have been estimated at \$999,576 (net of tax) assuming the Minimum Subscription is achieved, \$2,231,444 (net of tax) assuming the Maximum Subscription is achieved and \$2,989,728 (net of tax) assuming the Over Subscription is achieved.

A breakdown of these expenses (including GST), assuming the Minimum Subscription of Applications for \$40,000,000, Subscription of Applications for \$75,000,000, Maximum Subscription of Applications for \$110,000,000 and Oversubscription of Applications for \$150,000,000 is provided below:

|   | <b>Minimum<br/>Subscription<br/>\$40,000,000<br/>(\$)</b> | <b>Subscription<br/>\$75,000,000<br/>(\$)</b> | <b>Maximum<br/>Subscription<br/>\$110,000,000<br/>(\$)</b> | <b>Over<br/>Subscription<br/>\$150,000,000<br/>(\$)</b> |
|---|---|---|--|---|
| Joint Lead Manager fees                       | 1,045,000   | 1,925,000                                     | 2,862,750  | 3,987,500   |
| Legal fees                                    | 132,000   | 132,000                                       | 132,000  | 132,000   |
| Investigating accountant and tax adviser fees | 38,500  | 38,500  | 38,500   | 38,500  |
| ASX fees                                      | 135,300   | 170,500                                       | 201,300  | 236,500   |
| ASIC lodgement fees                           | 2,320   | 2,320   | 2,320  | 2,320   |

|  | <b>Minimum<br/>Subscription<br/>\$40,000,000<br/>(\$)</b> | <b>Subscription<br/>\$75,000,000<br/>(\$)</b> | <b>Maximum<br/>Subscription<br/>\$110,000,000<br/>(\$)</b> | <b>Over<br/>Subscription<br/>\$150,000,000<br/>(\$)</b> |
|--|---|---|--|---|
| Other expenses                                     | 138,595   | 138,595                                       | 138,595  | 138,595   |
| <b>Total estimated gross expenses of the Offer</b> | <b>1,491,715</b>  | <b>2,406,915</b>                              | <b>3,375,465</b>   | <b>4,535,415</b>  |
| Less: Deferred tax asset                           | (428,390)   | (684,950)                                     | (956,333)  | (1,281,312)   |
| Less: GST Receivable                               | (63,750)  | (123,750)                                     | (187,688)  | (264,375)   |
| <b>Total estimated expenses of the Offer</b>       | <b>999,576</b>  | <b>1,598,216</b>                              | <b>2,231,444</b>   | <b>2,989,728</b>  |

## 7.7. Proposed significant accounting policies and notes to accounts

A summary of significant accounting policies that have been adopted in the preparation of unaudited pro forma balance sheets set out in Section 7.2 or that will be adopted and applied in preparation of the financial statements of the Company for the period ended 30 June 2017 and subsequent periods is set out as follows:

### (a) Basis of preparation

The pro forma balance sheet has been prepared in accordance with Australian Accounting Standards and Interpretations, issued by the AASB and the Corporations Act, as appropriate for for-profit oriented entities (as modified for inclusion in the Prospectus).

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial information presented in the Prospectus is presented in an abbreviated form and does not contain all of the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The pro forma balance sheets have been prepared on the basis of assumptions outlined in Section 7.5.

The pro forma balance sheets have been prepared on an accrual basis and are based on historical costs.

### (b) Financial assets and liabilities

#### (i) Classification

The Company's investments are classified at fair value through profit or loss. They comprise:

#### Financial assets and liabilities at fair value through profit or loss – held for trading

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

The Company will make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may be use short sales for various arbitrage transactions. Short sales are classified as current financial liabilities at fair value through profit or loss.



### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables within the Balance sheet.

#### (ii) *Recognition and derecognition*

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognised on trade-date, which is the date on which the Company commits to purchase or sell the asset or liability. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

#### (iii) *Measurement*

At initial recognition, the Company measures its financial assets and liabilities at fair value, excluding any transaction costs that are directly attributable to their acquisition.

Transaction costs of financial assets and liabilities at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

#### (iv) *Determination of fair value*

The fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access to at that date. The fair value of a liability reflects its non-performance risk.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure at fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Accounting standards prescribe that if an investment has a bid price and an ask price, the price within the bid-ask spread that is more representative of fair value in the circumstances shall be used to measure fair value. Accordingly, the Company uses the last sale price as a basis of measuring fair value.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

**(c) Income and expenditure**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

Revenue is recognised when it is probable that the economic benefit will flow to the entity and can be reliably measured.

All expenses, including Performance fees and Management fees, are recognised in the Statement of Comprehensive Income on an accrual basis.

**(i) Investment income**

Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Comprehensive Income in the year they are incurred.

**(ii) Dividends and trust distributions**

Dividends and trust distributions are recognised as revenue when the right to receive payment is established.

**(iii) Interest income**

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

**(d) Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

The Company may incur withholding tax imposed by certain countries on investment income. Such income will be recorded net of withholding tax in profit or loss.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

**(e) Goods and Service Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, unless GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the Balance sheet.

(f) **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) **Share capital**

Ordinary shares will be classified as equity. Costs directly attributable to the issue of ordinary shares will be recognised as a deduction from equity, net of any tax effects.

(h) **Profits reserve**

A profits reserve has been created representing an amount allocated from current and retained earnings that is preserved for future dividend payments.

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## 8. Investigating Accountant's Report



**PITCHER PARTNERS**  
SYDNEY CORPORATE FINANCE PTY LTD

4 November 2016

Board of Directors  
Watermark Global Leaders Fund Limited  
Level 6, 139 Macquarie Street  
NSW Sydney 2000

Level 22 MLC Centre  
19 Martin Place  
Sydney NSW 2000

Tel: 02 9221 2099  
Fax: 02 9223 1762

Postal Address:  
GPO Box 1615  
Sydney NSW 2001

www.pitcher.com.au  
sydneypartners@pitcher.com.au

Dear Directors

### **PART 1: INDEPENDENT LIMITED ASSURANCE REPORT ON WATERMARK GLOBAL LEADERS FUND LIMITED PRO FORMA HISTORICAL FINANCIAL INFORMATION**

#### **8.1 INTRODUCTION**

The Directors of Watermark Global Leaders Fund Limited (the "*Company*") have engaged Pitcher Partners Sydney Corporate Finance Pty Ltd ("*Pitcher Partners*") to report on the pro forma historical financial information of the Company as at 30 August 2016.

We have prepared this Independent Limited Assurance Report ("*Report*") to be included in a Prospectus dated on or about 4 November 2016 and relating to the offer of up to 136,363,636 fully paid ordinary Shares at an offer price of \$1.10 per share to raise up to \$150,000,000 should the Maximum Subscription be raised and all over subscriptions be accepted.

The Minimum Subscription is 36,363,636 fully paid ordinary Shares to raise a minimum of \$40,000,000. The Offer is not underwritten.

Under the Offer, there will also be an entitlement to one Option for every ordinary Share subscribed for, which will be exercisable at an exercise price of \$1.10 per Option, on or before 16 November 2018.

Unless stated otherwise, expressions defined in the Prospectus have the same meaning in this Report and section references are to sections of the Prospectus.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence ("*AFSL*") under the Corporations Act. Pitcher Partners holds the appropriate AFSL authority under the Corporations Act. Refer to our Financial Services Guide included as Part 2 of this Report.

#### **8.2 BACKGROUND**

The Company was incorporated on 30 August 2016 and has not traded. As at the date of this Report, the Company has 1 Share and no Options on issue and has net assets of \$1.

#### **8.3 SCOPE**

This Report deals with the pro forma financial information included in Section 7 of the Prospectus ("*Financial Information*"). The Financial Information consists of the pro forma balance sheets as at 30 August 2016 and related notes as set out in sections 7.3 to 7.6 of the Prospectus.

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The unaudited pro forma balance sheets in Section 7.2 have been prepared to illustrate the financial position of the Company on completion of the Offer and have been prepared on the basis of the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the events to which the pro forma assumptions relate, as described in Section 7.5 of the Prospectus, as if those events had occurred as at 30 August 2016. Due to its nature, the pro forma historical financial information does not represent the Company's actual or prospective financial position.

The pro forma balance sheets are presented in an abbreviated form insofar as it does not include all the presentation and disclosures required by Australian Accounting Standards applicable to general purpose financial reports.

Pitcher Partners disclaims any responsibility for any reliance on this Report or the financial information to which it relates for any purpose other than that for which it was prepared. This Report should be read in conjunction with the full Prospectus and has been prepared for inclusion in the Prospectus.

#### **8.4 DIRECTOR'S RESPONSIBILITIES**

The Directors of the Company are responsible for the preparation and presentation of the pro forma balance sheets including the selection and determination of pro forma assumptions, accounting policies and the notes included in the pro forma historical financial information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of the pro forma historical financial information that are free from material misstatement, whether due to fraud or error.

#### **8.5 OUR RESPONSIBILITIES**

Our responsibility is to express a limited assurance conclusion on the pro forma historical financial information included in Section 7 of the Prospectus based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion on the pro forma historical financial information of the Company.

Our engagement did not involve updating or re issuing any previously issued audit or review report on any financial information used as a source of the financial information.

#### **8.6 CONCLUSION**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma historical financial information of the Company, being the pro forma balance sheets, are not presented fairly, in all material respects, in accordance with the assumptions described in Section 7.5 of the Prospectus and the stated basis of preparation as described in Section 7.6 of the Prospectus.

#### **8.7 RESTRICTION ON USE**

Without modifying our conclusions, we draw attention to Section 7 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

Investors should also consider the risks set out in Section 6 of the Prospectus.

#### **8.8 LEGAL PROCEEDINGS**

To the best of our knowledge and belief, there are no material legal proceedings outstanding or currently being undertaken, not otherwise disclosed in this Report, which would cause the information included in the Report to be misleading.

## 8.9 SUBSEQUENT EVENTS

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no other material transactions or events outside of the ordinary business of the Company have come to our attention, that would require comment on, or adjustment to the information referred to in our Report, or that would cause such information to be misleading or deceptive.

## 8.10 SOURCES OF INFORMATION

Pitcher Partners has made enquiries of the Directors, the Manager and other parties as considered necessary during the course of our analysis of the pro forma historical financial information of the Company. We have also referred to the Prospectus and material documents which relate to the proposed operations of the Company.

We have no reason to believe the information supplied is not reliable.

## 8.11 INDEPENDENCE OR DISCLOSURE OF INTEREST

Pitcher Partners has no financial or other interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion on the matters that are subject of this Report for which normal professional fees will be received.

Neither Pitcher Partners Sydney Corporate Finance Pty Ltd, Pitcher Partners Sydney Wealth Management Pty Ltd, nor any Director thereof, nor any individual involved in the preparation of the Report have any financial interest in the outcome of the Offer, other than with respect to the fee payable to Pitcher Partners in connection with the preparation of our Report for which normal professional fees will be received.

Our associated partnership, Pitcher Partners Sydney, has been nominated to be auditor of the Company subject to approval from the Australian Securities & Investments Commission and the Company's shareholders. If appointed, Pitcher Partners Sydney will receive fees for performing audit services.

## 8.12 LIABILITY AND CONSENT

Pitcher Partners has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. At the date of this Report, this consent has not been withdrawn.

The liability of Pitcher Partners is limited to the inclusion of this Report in the Prospectus. Pitcher Partners has not authorised the issue of the Prospectus. Accordingly, Pitcher Partners makes no representation regarding, and takes no responsibility for, any other statements or material in or omissions from, the Prospectus.

## 8.13 FINANCIAL SERVICES GUIDE

We have included our Financial Services Guide as Part 2 of this Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

**Pitcher Partners Sydney Corporate Finance Pty Ltd**



**Scott Whiddett**  
Director

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## PART 2 - FINANCIAL SERVICES GUIDE

### 1. Pitcher Partners Sydney Corporate Finance Pty Ltd

Pitcher Partners Sydney Corporate Finance Pty Ltd ("**Pitcher Partners**") is an authorised representative of Pitcher Partners Sydney Wealth Management Pty Ltd ("**Licence Holder**") in relation to Australian Financial Services Licence No. 336950.

Pitcher Partners may provide the following financial services to wholesale and retail clients as an authorised representative of the Licence Holder:

- Financial product advice in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, deposit and payment products, life products, retirement savings accounts and superannuation (collectively "**Authorised Financial Products**"); and
- Applying for, varying or disposing of a financial product on behalf of another person in respect of Authorised Financial Products.

### 2. Financial Services Guide

The Corporations Act 2001 requires Pitcher Partners to provide this Financial Services Guide ("**FSG**") in connection with its provision of an Investigating Accountant's Report ("**Report**") which is included in the Prospectus provided by Watermark Global Leaders Fund Limited (the "**Entity**").

### 3. General Financial Product Advice

The financial product advice provided in our Report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence ("**AFSL**") to assist you in this assessment.

### 4. Remuneration

Pitcher Partners' client is the Entity to which it provides the Report. Pitcher Partners receives its remuneration from the Entity. Our fee for the Report is based on a time cost or fixed fee basis. This fee has been agreed in writing with the party who engaged us. Neither Pitcher Partners nor its Directors and employees, nor any related bodies corporate (including the Licence Holder) receive any commissions or other benefits in connection with the preparation of this Report, except for the fees referred to above.

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of Pitcher Partners or related entities but any bonuses are not directly connected with any assignment and in particular not directly related to the engagement for which our Report was provided.

We do not pay commissions or provide any other benefits to any parties or person for referring

customers to us in connections with the reports that we are licensed to provide.

### 5. Independence

Pitcher Partners is required to be independent of the Entity.

Neither Pitcher Partners, Pitcher Partners Sydney Wealth Management Pty Ltd, any Director thereof, nor any individual involved in the preparation of the Report have any financial interest in the outcome of this Offer, other than a fee in connection with the preparation of our Report for which professional fees in the order of \$35,000 (excluding GST) will be received. No pecuniary or other benefit, direct or indirect, has been received by Pitcher Partners, their Directors or employees, or related bodies corporate for or in connection with the preparation of this Report.

Pitcher Partners Sydney, a chartered accounting partnership associated with Pitcher Partners has been nominated to be the appointed auditor of the Company, for which it will receive fees.

### 6. Complaints Resolution

Pitcher Partners is only responsible for its Report and this FSG. Complaints or questions about the Prospectus should not be directed to Pitcher Partners which is not responsible for that document.

Both Pitcher Partners and the Licence Holder may be contacted as follows:

- By phone: (02) 9221 2099
- By fax: (02) 9223 1762
- By mail: GPO Box 1615  
SYDNEY NSW 2001

If you have a complaint about Pitcher Partners' Report or this FSG you should take the following steps:

1. Contact the Enquiries and Complaints Officer of the Licence Holder on (02) 9221 2099 or send a written complaint to the Licence Holder at Level 22, MLC Centre 19 Martin Place, Sydney NSW 2000. We will try and resolve your complaint quickly and fairly.
2. If you still do not get a satisfactory outcome, you have the right to complain to the Financial Industry Complaints Service at PO Box 579 Collins St West, Melbourne, Victoria 8007 or call on 1300 78 08 08. We are a member of this scheme.
3. The Australian Securities & Investments Commission (ASIC) also has a freecall Infoline on 1300 300 630 which you may use to make a complaint and obtain information about your rights.

The Licence Holder, as holder of the AFSL, gives authority to Pitcher Partners to distribute this FSG.

## 9. Directors of the Company

### 9.1. Introduction

The Company believes that the Manager has the skill, depth of knowledge and history of achieving results using the Investment Strategy and processes to manage this Portfolio.

The Board of Directors comprises independent and non-independent directors with a broad range of experience in investment management combined with financial and commercial expertise.

The following table provides information regarding the Directors, including their positions:

| Director         | Position                           | Independence    |
|------------------|------------------------------------|-----------------|
| Rohan Hedley     | Chairman                           | Independent     |
| Philip Howard    | Director and audit committee chair | Independent     |
| Justin Braitling | Director                           | Non-Independent |
| Tim Bolger       | Director                           | Non-Independent |

### 9.2. Background of the Directors

#### **Rohan Hedley, B Comm (Accounting) – Chairman, Independent Director**

Rohan has 28 years' experience in the funds management and investment industry.

Rohan joined Bankers Trust Funds Management (**BT**) as an investment analyst in 1988 and subsequently held the role of Head of Equities for BT's domestic and international equity portfolios. At the time, BT managed \$15 billion in international and domestic shares on behalf of a range of superannuation and retail clients. At BT, Rohan held the position of Executive Vice President of Bankers Trust Australia Ltd, was a member of the Management Committee of Bankers Trust Australia Ltd and a partner of Bankers Trust (New York) Inc.

After leaving BT in 2002, Rohan founded, seeded and managed the boutique Australian equity hedge fund manager, Hayberry Investments. Hayberry managed \$400 million for a range of domestic and international high net worth investors. The Hayberry Australian Equity Fund was wound up in 2011 at its high water mark and after returning a net of fees life of fund return of 163%. Subsequent to Hayberry, Rohan has invested in a private capacity.

Prior to BT, Rohan worked within the Insolvency and Reconstruction Division of Arthur Young (now Ernst and Young). Rohan graduated from the University of Newcastle with an accounting degree.

#### **Philip Howard, B Comm, CA – Independent Director and audit committee chair**

Philip Howard has over 28 years' experience in the financial services industry covering funds management and general financial services. He holds a Bachelor of Commerce from the University of Tasmania and is a member of the Institute of Chartered Accountants of Australia. He was a director and Company Secretary of Platinum Capital Limited and Platinum Asset Management Limited. Prior to those appointments, he was Platinum's Chief Operating Officer for nearly 10 years.

Prior to Platinum, he held senior roles in finance, operations and management with State Street Australia, Bankers Trust and Price Waterhouse Sydney.

Philip has been appointed as the independent chair of the Company's audit committee.

#### **Justin Braitling, B Economics (Hons) – Non-independent Director**

See Section 5.2 for details.

#### **Tim Bolger, B Arts, Diploma in Law – Non-independent Director**

See Section 5.2 for details.



### 9.3. Independent Directors

Philip Howard and Rohan Hedley, being independent Directors, are free from any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of the person's judgement.

### 9.4. Director disclosures

No Director has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere in the last 10 years which is relevant or material to the performance of their duties as a Director.

No Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12-month period after they ceased to be an officer.

### 9.5. The role of the Board

The Directors will ensure the Company has corporate governance procedures and that those procedures are followed. In addition, the Board will be responsible for reviewing the Manager's performance and ensuring compliance with the Investment Management Agreement terms. The members of the Board may implement capital management strategies (in line with the policy set out in Section 3.10) from time to time.

It is expected that Board meetings will be held at least quarterly and more frequently as required. The Directors commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.

The Company has outsourced its investment management functions to the Manager in accordance with the Investment Management Agreement. The Company is expected to outsource its accounting, valuation services and company secretarial function to the Administrator, White Outsourcing Pty Ltd. These services are provided on commercial terms and are estimated to be \$110,000 per financial year.

The custody and share registry have been outsourced to various other service providers. The Board will oversee the performance of the Manager, the Administrator and other service providers for custody and share registry services.

Each Director has confirmed that, notwithstanding their other commitments, they will be available to spend the required amount of time on the Company's affairs including attending Board meetings of the Company.

### 9.6. Participation by Directors

Justin Braitling currently holds one Share in the Company, which was issued on incorporation.

The Directors, and entities associated with them, are permitted to participate in the Offer. At completion of the Offer the Directors are expected to have a Relevant Interest in the following numbers of Securities:

| Director         | Shares  | Options |
|------------------|---------|---------|
| Rohan Hedley     | 100,000 | 100,000 |
| Philip Howard    | 50,000  | 50,000  |
| Justin Braitling | 500,001 | 500,000 |
| Tim Bolger       | 10,000  | 10,000  |

### 9.7. No other interests

Except as set out in this Prospectus, there are no interests that exist at the date of this Prospectus and there were no interests that existed within two years before the date of this Prospectus that are, or were respectively, interests of a Director, a proposed Director of the Company or a promoter of the Company

or in any property proposed to be acquired by the Company in connection with its formation or promotion or the Offer.

Further, there have been no amounts paid or agreed to be paid to a Director in cash or Securities or otherwise by any persons either to induce them to become or to qualify them as a Director or otherwise, for services rendered by them in connection with the promotion or formation of the Company.

### 9.8. Directors' remuneration

The Company's non-executive Directors are entitled to receive Directors' fees of up to \$100,000 per annum (exclusive of superannuation) to be shared among the independent non-executive Directors.

The Company's non-independent Directors, Justin Braitling and Tim Bolger, are remunerated by the Manager and will not receive Director's fees for remuneration from the Company.

Additional remuneration may be paid in accordance with the Company's Constitution. As at the date of the Prospectus, the Company has agreed to pay the independent non-executive Directors the following annual fees:

| Director         | Director's Fees |
|------------------|-----------------|
| Rohan Hedley     | \$30,000        |
| Philip Howard    | \$30,000        |
| Justin Braitling | N/A             |
| Tim Bolger       | N/A             |

For the year ending 30 June 2017 Directors will be paid a pro rata amount calculated by reference to the date the Company is admitted to the Official List.

The remuneration for Directors will be reviewed by the Board on a periodic basis as the Company develops its business and, subject to the Listing Rules, may be increased.

### 9.9. Indemnity for Directors

The Company has agreed to provide an indemnity to the Directors in limited circumstances. See Section 10.4 for details.

### 9.10. Corporate governance policies

The Board has the responsibility of ensuring the Company is properly managed so as to protect and enhance Shareholders' interests in a manner that is consistent with the Company's responsibility to meet its obligations to all parties with which it interacts. To this end, the Board has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and the nature of activities.

The Board endorses the Corporate Governance Principles and Recommendations (ASX Recommendations) published by the ASX Corporate Governance Council and has adopted corporate governance charters and policies reflecting those ASX Recommendations (to the extent that such principles and recommendations are applicable to an entity of the size and structure of the Company). These will be available on the section of the Manager's website dedicated to the Company, at [www.wfunds.com.au](http://www.wfunds.com.au).

The Board will review the corporate governance policies and structures that the Company has in place on an ongoing basis to ensure that these are appropriate for the size of the Company and nature of its activities, and that these policies and structures continue to meet the corporate governance standards to which the Board is committed.

### 9.11. Related party disclosures

Each Director has entered into a director protection deed with the Company pursuant to which the Company has agreed to, amongst other things, indemnify (to the extent permitted by law) each Director

in respect of certain liabilities incurred in their capacity as Directors. These deeds contain standard commercial terms and are consistent with market practice (see Section 10.4).

Justin Braiting, a non-independent Director of the Company, is the director and indirect owner of the Manager. As the indirect owner of the Manager, Justin benefits from the entry by the Manager into the Investment Management Agreement through the payment of fees under the Investment Management Agreement. Details of the financial benefit payable under the Investment Management Agreement are included in Section 10.1. In light of these benefits, the Company has agreed that the non-independent Directors will not receive Directors' fees from the Company.

Other than as set out above or elsewhere in this Prospectus, there are no existing agreements or arrangements and there are no currently proposed transactions in which the Company was, or is to be, a participant, and in which any related party had or will have a direct or indirect material interest.

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## 10. Material Contracts

The Directors consider that the material contracts described below and elsewhere in this Prospectus are those which an investor would reasonably regard as material and which investors and their professional advisors would reasonably expect to find described in this Prospectus for the purpose of making an informed assessment of the Offer. This Section contains a summary of the material contracts and their substantive terms.

### 10.1. Investment Management Agreement

The Company has entered into the Investment Management Agreement with the Manager on 26 October 2016 with respect to the investment management of the Company's Portfolio. Set out below is a summary of the material terms of the Investment Management Agreement.

#### *Services*

The Manager must manage and supervise the Portfolio and all investments within the Portfolio.

#### *Permitted investments*

The Manager is permitted to undertake investments on behalf of the Company without Board approval. However, if the proposed investment is not in accordance with the approved Investment Strategies, Board approval for the investment is required. The Board may approve changes to the approved Investment Strategy from time to time.

To the extent the Manager's AFSL does not include the authorisations required for the Manager to provide advice or deal in certain investments, the Manager may engage external advisors with the appropriate AFSL authorisations.

#### *Powers of the Manager*

Subject to the Corporations Act, the Listing Rules and Investment Strategy agreed with the Company from time-to-time, the Manager has the powers necessary to, on behalf of the Company, invest money constituted in or available to the Portfolio, and make, hold, realise and dispose of investments within the Portfolio. Any investment outside the Investment Strategy of the Board requires Board approval.

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

- (a) investigation, negotiation, acquisition, or disposal of every investment;
- (b) to sell, realise or deal with all or any of the investments or to vary, convert, exchange or add other investments;
- (c) if any investments are redeemed or the capital paid on it is wholly or partly repaid by the entity by which that investment was created or issued:
  - (i) to convert that investment into some other investment;
  - (ii) to accept repayment of the capital paid or advance on the investment and any other monies payable in connection with that redemption or repayment;
  - (iii) to re-invest any of those monies;
- (d) retain or sell any shares, debentures or other property received by the Company by way of bonus, or in satisfaction of a dividend in respect of any investments or from the amalgamation or reconstruction of any entity; and

- (e) to sell all or some of the rights to subscribe for new securities in an investment, to use all or part of the proceeds of the sale of such rights for the subscription for securities or to subscribe for securities pursuant to those rights.

#### *Valuations*

The Company must arrange for calculation of the value of the Portfolio at least monthly or at such more frequent times as may be agreed between the Manager and the Company. All costs incurred in arranging this calculation are to be paid by the Company. To assist with the reconciliation of all valuations, the Company is expected to enter into a separate agreement with White Outsourcing Pty Ltd pursuant to which White Outsourcing will provide administrative support services including reconciliation services. See Section 9.5 for details.

#### *Delegation*

The Manager may, with the prior approval of the Company (not to be unreasonably withheld), appoint or employ any person, including any Related Body Corporate of the Manager, to be a sub-contractor for the Manager to perform any or all of the duties and obligations imposed on the Manager by the Investment Management Agreement.

#### *Non-exclusivity and conflict management*

The Manager may from time to time perform similar investment and management services for itself and other persons similar to the services performed for the Company under the Investment Management Agreement, provided the Manager does not prejudice or otherwise derogate its responsibilities specified in the Investment Management Agreement.

To manage potential conflicts of interest, the Manager must comply with the allocation policy set out in Section 3.11 (as amended in consultation with the Company from time to time).

#### *Confidentiality*

To protect the confidentiality of information related to the Company and its assets under management, the Manager has provided various confidentiality undertakings in the Investment Management Agreement. These undertakings are consistent with market practice. Importantly these undertakings:

- (a) effectively prohibit the Manager from using the Company's information for any purpose other than in its role as the Company's Manager; and
- (b) require the Manager to take all reasonable, proper and effective precautions to maintain the confidential nature of the Company's information.

#### *Related party protocols*

The Manager is not prohibited under the Investment Management Agreement from acquiring assets from, or disposing assets to, a related party. However, if the Manager does ever propose that the Company acquire assets from or dispose of assets to a related party of the Manager, the Company must approve that acquisition or disposal to the extent required by the Corporations Act or the Listing Rules.

#### *Amendment*

The Investment Management Agreement may only be altered by the agreement of the Company and the Manager. The Company and the Manager have agreed that they will only make material changes to the Investment Management Agreement if the Company has obtained shareholder approval for these material changes.

#### *Change of control provisions*

The Manager has no right to terminate the Investment Management Agreement in the event of a change of control of the Company.

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Similarly, the Company has no right to terminate the Investment Management Agreement in the event of a change of control of the Manager.

The Investment Management Agreement does not contain any pre-emptive rights over the Portfolio which are exercisable by either the Company, the Manager or a related entity of the Manager in the event of a change of control of either the Company or the Manager.

#### *Company indemnity*

The Company 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 Investment 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.

This obligation continues after the termination of the Investment Management Agreement.

#### *Manager's liability*

Subject to the Corporations Act, the Listing Rules and the Investment Management Agreement, the Manager will, in relation to all the powers, authorities and discretions vested in it, have absolute and uncontrolled discretion as to:

- (a) whether or not to exercise them; and
- (b) the manner or mode of, and time for, their exercise.

In the absence of negligence, default, fraud or dishonesty, the Manager will not be in any way whatsoever responsible for any loss, costs, damages or inconvenience that may result from the exercise or failure to exercise those powers, authorities and discretions.

#### *Manager indemnity*

The Manager must indemnify the Company against any losses or liabilities reasonably incurred by the Company arising out of, or in connection with, and any costs, charges and expenses incurred in connection with any negligence, default, fraud or dishonesty of the Manager or its officers. This obligation continues after the termination of the Investment Management Agreement.

#### *Management Fee*

In return for the performance of its duties as Manager of the Portfolio, the Manager is entitled to be paid monthly a Management fee equal to 1.20% (plus GST) per annum of the Value of the Portfolio (payable monthly in arrears and calculated on the last business day of each month).

The Management Fee is to be paid to the Manager irrespective of the performance of the Company. Management Fees would increase if the Value of the Portfolio increases, and decrease if the Value of the Portfolio decreases, over the period.

As a worked example, assuming an initial Value of the Portfolio of \$150,000,000 at 1 July 2016, and nil performance on the Portfolio each month, the Management Fee payable on the portfolio for the 12 month period from 1 July 2016 to 30 June 2017 would be approximately \$1,789,887 (plus GST), paid monthly.

#### *Performance Fee*

The Manager is entitled to be paid by the Company a fee (**Performance Fee**) equal to 20% (plus GST) of the Portfolio's outperformance relative to the RBA Cash Rate (**Benchmark**) over the 12 month period

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subject to the recoupment of any prior underperformance. The Performance Fee for each Performance Calculation Period is calculated in accordance with the following formula:

$$BA = (FV - IV) - (IV \times CR)$$

Where:

**BA** is the base amount of the Portfolio's outperformance relative to the Benchmark to be used in calculating the Performance Fee outlined above;

**FV** is the Value of the Portfolio calculated on the last business day of the relevant Performance Calculation Period;

**CR** is the average of the RBA Cash Rate in respect of each day during the Performance Calculation Period expressed as a percentage for a period equal to the number of days in the Performance Calculation Period; and

**IV** is the Value of the Portfolio calculated on the last business day of the preceding Performance Calculation Period or, if there is no preceding Performance Calculation Period, on the Commencement Date.

For the purpose of this calculation Value of the Portfolio is defined in the Investment Management Agreement as the aggregate sum of the gross value of each investment less any liability directly or indirectly attributable to the acquisition, maintenance or disposal of any investment or the management and administration of the Portfolio incurred or accrued on or before the date of the calculation (including but not limited to any unpaid purchase consideration accrued legal or other expenses, brokerage, stamp duty, borrowings or other liabilities).

If the BA is ever a negative number, no Performance Fee is payable in respect of that Performance Calculation Period and the negative value is carried forward to the following Performance Calculation Period(s) until it has been recouped in full against future positive performance. No Performance Fees will be payable until the full recoupment of prior underperformance.

In calculating the Performance Fee for a Performance Calculation Period, changes in the Value of the Portfolio as a result of the issue of Securities, capital reductions or share buybacks undertaken, payment of tax and dividend distributions made by the Company will be adjusted for in a manner determined by the Company's auditor at the conclusion of that Performance Calculation Period.

*Example 1: Outperformance against the Benchmark*

Assuming a Performance Calculation Period of 1 July 2016 to 30 June 2017, an initial Value of the Portfolio of \$150,000,000, and a Value of the Portfolio at the end of the Performance Calculation Period of \$165,000,000 (representing a 10% higher value than at the beginning):

- If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate outperformance of \$12,750,000.
- In this instance, there would be a Performance Fee payable at 20% of this amount equating to \$2,550,000 (plus GST) for the Performance Calculation Period as the Portfolio has outperformed the Benchmark.

*Example 2: Underperformance against the Benchmark*

Assuming a Performance Calculation Period of 1 July 2016 to 30 June 2017, an initial Value of the Portfolio of \$150,000,000, and a Value of the Portfolio at the end of the Performance Calculation Period, that is 1% higher than at the beginning of \$151,500,000:

- If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate underperformance of \$750,000.
- In this instance, there would be no Performance Fee payable for the Performance Calculation Period as the Portfolio has underperformed the Benchmark
- The aggregate underperformance of \$750,000 is to be carried forward to the following Performance Calculation Periods until it has been recouped in full against future positive Portfolio performance.

*Example 3: Recouping past underperformance*

Assuming a Performance Calculation Period of 1 July 2017 to 30 June 2018, an initial Value of the Portfolio of \$151,500,000, and a Value of the Portfolio at the end of the Performance Calculation Period that is 10% higher than at the beginning of \$166,650,000:

- If the Benchmark return is 1.5% for the Performance Calculation Period, there would be an aggregate outperformance of \$12,877,500.
- The aggregate underperformance of \$750,000 from prior Performance Calculation Period(s) as per Example 2 above, is to be recouped in full against the current Portfolio performance, resulting in aggregate outperformance of \$12,127,500 for the Performance Calculation Period.
- In this instance, there would be a Performance Fee payable at 20% of this amount equating to \$2,425,500 (plus GST) for the Performance Calculation Period, as the Portfolio has outperformed the Benchmark and prior underperformance has been recouped in full against current Portfolio performance.

*Expenses*

The Company is liable for and must pay out of the Portfolio or reimburse the Manager for the fees, costs and expenses approved by the Board provided they were properly incurred in connection with the investment and management of the Portfolio of the Company or the acquisition, disposal or maintenance of any investment, including:

- (a) fees payable to any securities exchange, ASIC, the Company's share register, any approved valuer or other regulatory body; and
- (b) all costs, custody fees, stamp duties, financial institutions duties, bank account debits tax, legal fees and other duties, taxes, fees, disbursements and expenses, commissions and brokerage incurred by the Company or the Manager in connection with:
  - (i) the acquisition and negotiation of any investment or proposed investment;
  - (ii) any sale or proposed sale, transfer, exchange, replacement or other dealing or proposed dealing with or disposal or proposed disposal of any investment;
  - (iii) the receipt of income or other entitlements from the investments within the Portfolio;
  - (iv) the engagement of a custodian to hold an investment on behalf of the Company;
  - (v) outgoings in relation to the Portfolio such as rates, levies, duties, taxes and insurance premiums; and
  - (vi) all accounting and audit costs of the Company whether or not in reference to the Portfolio.

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Notwithstanding the above, the Manager is solely responsible for payment of the fees of any manager engaged by the Manager to assist it in undertaking its duties under the Investment Management Agreement.

#### *Assignment*

The Manager may assign the Investment Management Agreement to a third party with the prior consent in writing of the Company, which must not be unreasonably withheld or delayed.

#### *Term of Agreement*

The initial term of the Investment Management Agreement is currently 5 years, which will be automatically extended for successive one year periods, unless terminated earlier in accordance with the Investment Management Agreement.

However, the Company has applied to the ASX for a waiver to extend the initial 5 year term to 10 years (with automatic extensions of one year periods unless terminated earlier in accordance with the Investment Management Agreement). If the waiver application is refused, the initial term of the Investment Management Agreement will remain 5 years.

#### *Termination and termination fees*

The Investment Management Agreement gives the Company certain termination rights including the right to immediately terminate if the Manager becomes insolvent or breaches its obligations under the Investment Management Agreement in a material respect and such breach cannot be rectified or is not remedied within 30 days after receiving notice of that breach. No termination fee is payable to the Manager if the Investment Management Agreement is terminated in accordance with these rights.

The Company may also terminate the Investment Management Agreement following the initial term on three months' notice if Shareholders pass an ordinary resolution directing the Company to terminate the Manager's appointment. If the Company terminates the Investment Management Agreement in this way, it must pay to the Manager a fee equal to the sum of all Management Fees that accrued in the 12 month period up to the date of termination.

This fee must be paid by the Company to the Manager in addition to any accrued but unpaid Performance Fees and Management Fees as at the termination date.

The Manager may terminate the Investment Management Agreement at any time after the initial term by giving the Company at least six months' written notice.

#### *After termination*

If the Investment Management Agreement is terminated by the Company, it will be required to call a general meeting to change the Company's name by removing "Watermark".

The Company does not have an AFSL and so requires an investment manager to manage the Portfolio and implement its Investment Strategies and objectives. If the Investment Management Agreement is terminated while the Company remains a LIC, the Portfolio would need to be assigned to a replacement manager and a new management agreement would need to be put in place. Under the Investment Management Agreement, the Manager must assign all its rights, title and interest to a new manager appointed by the Company within 30 business days of termination. The Company would seek all necessary Shareholder approvals if this were to occur.

## **10.2. Offer Management Agreement**

The Company and the Manager have entered into an offer management agreement dated 27 October 2016 (**Offer Management Agreement**) with the Joint Lead Managers pursuant to which the Joint Lead Managers will manage the Offer. Under the Offer Management Agreement, the Company appoints the Authorised Intermediary to make offers to arrange for the issue of the Shares and Options under the Offer.

In return for providing the services under the Offer Management Agreement, the Company will pay Taylor Collison Limited an arranger fee equal to 0.05% (plus GST) of the total proceeds raised under the Offer. The Company will pay the Joint Lead Managers a management fee equal to 1.20% (plus GST) of the total proceeds raised under the Offer (with each Joint Lead Manager receiving one fifth of this management fee).

In addition, the Company will pay to each Joint Lead Manager a Broker Firm selling fee of 1.5% (plus GST) of the total proceeds of the Broker Firm Offer raised by the relevant Joint Lead Manager and its Brokers. The Joint Lead Managers will have sole responsibility to pay any commissions and fees payable to a Broker.

The Company has agreed to pay or reimburse the Joint Lead Managers for all reasonable legal costs and expenses incurred by them in connection with the Offer, of up to \$30,000 (plus GST and disbursements), as well as other additional out-of-pocket expenses.

The Offer Management Agreement is conditional on a number of things including the Company obtaining any ASX waivers in in-principle form and any ASIC modifications (in a form and substance acceptable to the Joint Lead Managers) to enable the Offer to proceed in accordance with the timetable in the Offer Management Agreement and the Prospectus.

In accordance with the Offer Management Agreement and as is customary with these types of arrangements:

- (a) the Company and the Manager have (subject to certain usual limitations) agreed to indemnify the Joint Lead Managers, their related bodies corporate, their directors, officers, advisers and employees against any losses arising directly or indirectly in connection with the Offer (including for publicity, regulatory reviews or non-compliance of the Prospectus), or a breach by the Company and the Manager of any provision, including representation or warranty in, the Offer Management Agreement;
- (b) the Company and the Manager have given representations, warranties and undertakings in connection with (among other things) the conduct of the Offer and content of the Prospectus;
- (c) the Joint Lead Managers are entitled to appoint co-lead managers and Brokers to the Offer; and
- (d) the Joint Lead Managers may (in certain circumstances, including having regard to the materiality of the relevant event) terminate the Offer Management Agreement and be released from their obligations under it on the occurrence of certain events on or prior to the issue of Securities under the Offer, including (but not limited to) where:
  - (i) a statement contained in the offer materials is or becomes materially misleading or deceptive or likely to mislead or deceive or the Offer materials omit any information they are required to contain (having regard to the relevant Corporations Act requirements);
  - (ii) the ASX does not approve the listing of the Company;
  - (iii) there are changes in senior management of the Manager or the Board of Directors of the Company;
  - (iv) material adverse changes to the financial markets, political or economic conditions of key countries, trading halts on all securities listed on certain security exchanges, banking moratoriums, hostilities commence or escalate in key countries or a major terrorist act is perpetrated in key countries;
  - (v) subject to a materiality threshold, the Company or the Manager breaches any law or regulatory requirements or the Company fails to conduct the Offer in accordance with the law;
  - (vi) there is, or is likely to be, a material adverse change, or event involving a prospective material adverse change, in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company;

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- (vii) subject to a materiality threshold, a regulatory investigation or legal action is commenced against the Company or the Manager; or
- (viii) subject to a materiality threshold, a breach of the representations, warranties and undertakings or default of the Offer Management Agreement.

Please note that the above is not an exhaustive list of the termination events in the Offer Management Agreement.

### 10.3. International Prime Brokerage Agreements

Morgan Stanley & Co. International plc. (**Prime Broker**), a member of the Morgan Stanley Group of companies, based in London, will provide prime brokerage services to the Company under the terms of the international prime brokerage agreement (**Agreement**) dated 25 October 2016 and entered into between the Company and the Prime Broker for itself and as agent for certain other members of the Morgan Stanley Group of companies (**Morgan Stanley Companies**). These services may include the provision to the Company of margin financing, clearing, settlement, stock borrowing and foreign exchange facilities. The Company may also utilise the Prime Broker, other Morgan Stanley Companies and other brokers and dealers for the purposes of executing transactions for the Company. The Prime Broker is authorised by the United Kingdom Prudential Regulatory Authority (**PRA**) and regulated by the United Kingdom Financial Conduct Authority (**FCA**) and the PRA.

The Prime Broker will also provide a custody service for all the Company's investments, including documents of title or certificates evidencing title to investments, held on the books of the Prime Broker as part of its prime brokerage function in accordance with the terms of the Agreement and the rules of the FCA. The Prime Broker may appoint sub-custodians, including the Morgan Stanley Companies, of such investments. See below for further details.

In accordance with FCA rules, the Prime Broker will record and hold investments held by it as custodian in such a manner that the identity and location of the investments can be determined at any time and that such investments are readily identifiable as belonging to a customer of the Prime Broker and are separately identifiable from the Prime Broker's own investments. Furthermore, in the event that any of the Company's investments are registered in the name of the Prime Broker where, due to the nature of the law or market practice of jurisdictions outside the United Kingdom, it is in the Company's best interests so to do or it is not feasible to do otherwise, such investments may not be segregated from the Prime Broker's own investments and in the event of the Prime Broker's default may not be as well protected.

Any cash which the Prime Broker holds or receives on the Company's behalf will not be treated by the Prime Broker as client money and will not be subject to the client money protections conferred by the FCA's Client Money Rules (unless the Prime Broker has specifically agreed with or notified the Company that certain cash will be given client money protection). As a consequence, the Company's cash will not be segregated from the Prime Broker's own cash and will be used by the Prime Broker in the course of its investment business, and the Company will therefore rank as one of the Prime Broker's general creditors in relation thereto.

As security for the payment and discharge of all liabilities of the Company to the Prime Broker and the Morgan Stanley Companies, the investments and cash held by the Prime Broker and each such Morgan Stanley Company will be charged by the Company in their favour and will therefore constitute collateral for the purposes of the FCA rules. Investments and cash may also be deposited by the Company with the Prime Broker and other members of the Morgan Stanley Group of companies as margin and will also constitute collateral for the purposes of the FCA rules.

The Company's investments may be borrowed, lent or otherwise used by the Prime Broker and the Morgan Stanley Companies for its or their own purposes, whereupon such investments will become the property of the Prime Broker or the relevant Morgan Stanley Company and the Company will have a right against the Prime Broker or the relevant Morgan Stanley Company for the return of equivalent assets. The Company will rank as an unsecured creditor in relation thereto and, in the event of the insolvency of the Prime Broker or the relevant Morgan Stanley Company, the Company may not be able to recover such equivalent assets in full.

Neither the Prime Broker nor any Morgan Stanley Company will be liable for any loss to the Company resulting from any act or omission in relation to the services provided under the terms of the Agreement unless such loss results directly from the negligence, wilful default or fraud of the Prime Broker or any Morgan Stanley Company. The Prime Broker will not be liable for the solvency, acts or omissions of any sub-custodians or other third party by whom or in whose control any of the Company's investments or cash may be held. The Prime Broker and the Morgan Stanley Companies accept the same level of responsibility for nominee companies controlled by them as for their own acts. The Company has agreed to indemnify the Prime Broker and the Morgan Stanley Companies against any loss suffered by, and any claims made against, them arising out of the Agreement, save where such loss or claims result primarily from the negligence, wilful default or fraud of the indemnified person.

The Prime Broker is a service provider to the Company and is not responsible for the preparation of this document or the activities of the Company and therefore accepts no responsibility for any information contained in this document. The Prime Broker will not participate in the investment decision-making process.

#### **10.4. Director protection deeds**

The Company has entered into director protection deeds with each Director. Under these deeds, the Company has agreed to indemnify, to the extent permitted by the Corporations Act, each officer in respect of certain liabilities which the officer may incur as a result of, or by reason of (whether solely or in part), being or acting as an officer of the Company. The Company has also agreed to maintain in favour of each officer a directors' and officers' policy of insurance for the period that they are officers and for 7 years after they cease to act as officers.

## 11. Additional Information

### 11.1. Incorporation

The Company was incorporated on 30 August 2016.

### 11.2. Balance date and company tax status

The accounts for the Company will be made up to 30 June annually.

The Company will be taxed as a public company.

### 11.3. Rights attaching to the Shares

The following information is a summary of the Company Constitution. Shareholders have the right to acquire a copy of the Company Constitution, free of charge, from the Company until the expiry of this Prospectus.

Each Share confers on its holder:

- (a) the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per Shareholder) and on a poll (one vote per Share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on Shares (at present there is none);
- (b) the right to receive dividends, according to the amount paid up on the Share;
- (c) the right to receive, in kind, the whole or any part of the Company's property in a winding up, subject to priority given to holders of Shares that have not been classified by ASX as "restricted securities" and the rights of a liquidator to distribute surplus assets of the Company with the consent of members by special resolution; and
- (d) subject to the Corporations Act and the Listing Rules, Shares are fully transferable.

The rights attaching to Shares may be varied with the approval of Shareholders in general meeting by special resolution.

### 11.4. Rights attaching to the Options

The terms and conditions of the Options are as follows:

#### *Register*

The Company will maintain a register of holders of Options in accordance with Section 168(1)(b) of the Corporations Act.

#### *Transfer / transmission*

Options may be transferred or transmitted in any manner approved by the ASX.

#### *Exercise*

On exercise, the Company will issue a Share for each Option exercised. Options may be exercised by delivery to the Company of a duly completed Notice of Exercise of Options, signed by the registered holder of the Options, together with payment to the Company of \$1.10 per Option being exercised.

An Option may be exercised on any Business Day from issue to 16 November 2018 but not thereafter.

A Notice of Exercise of Options is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.

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*Dividend entitlement*

Options do not carry any dividend entitlement. Shares issued on exercise of Options rank equally with other issued Shares of the Company on and from issue.

*Participating rights*

For determining entitlements to the issue, Option holders may only participate in new issues of Securities to holders of Shares in the Company if the Option has been exercised and Shares allotted in respect of the Option before the record date. The Company must give at least 4 business days' notice to Option holders of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules of ASX.

If, between the date of issue and the date of exercise of an Option, the Company makes 1 or more rights issues (being a pro rata issue of Shares in the capital of the Company that is not a bonus issue), the exercise price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NE = OE - \frac{E [P - (S + D)]}{(N + 1)}$$

where:

**NE** is the new exercise price of the Option;

**OE** is the old exercise price of the Option;

**E** is the number of underlying Shares into which 1 Option is exercisable;

**P** is the average closing sale price per Share (weighted by reference to volume) during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);

**S** is the subscription price for a Share under the rights issue;

**D** is the dividend due but not yet paid on each Share at the relevant time; and

**N** is the number of Shares that must be held to entitle holders to receive a new Share in the rights issue.

If there is a bonus issue to the holders of Shares in the capital of the Company, the number of Shares over which the Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

*Reconstructions and alteration of capital*

Any adjustment to the number of outstanding Options and the exercise price under a re-organisation of the Company's share capital must be made in accordance with the Listing Rules.

*ASX listing*

Options are expected to be quoted on the ASX.

The Company must make an application for quotation of Shares issued on exercise of the Options on the ASX in accordance with the Listing Rules. Shares so issued will rank equally with other issued Shares of the Company.

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## 11.5. Dividend Reinvestment Plan

### *Eligible Members*

Shareholders who may participate in the dividend reinvestment plan (**Plan**) comprise Shareholders:

- (a) whose address, as it appears in the register of members of the Company, is situated in Australia; or
- (b) whose address, as it appears in the register of members of the Company, is situated outside Australia, and who have produced to the Company such evidence as the Company may require to satisfy the Company that any necessary approvals of any government or governmental authority in relation to participation in the Plan have been obtained and that such participation is not contrary to any applicable laws of Australia or any other relevant jurisdiction.

### *Application*

Eligible Shareholder may elect to participate in the Plan in respect of all or part of their Shares, which will comprise that member's Plan Shares. The Directors may in their absolute discretion accept or refuse any application to participate.

### *Subscription price*

Shares allotted to participants will be allotted at a price per Share determined by the Directors from time to time in accordance with the Corporations Act and the Listing Rules.

### *Investment of dividends*

In respect of each cash dividend from time to time due and payable to a Shareholder in respect of their Plan Shares, the Directors will on behalf of and in the name of the Shareholder subscribe for Shares being the maximum number of Shares which could be acquired by subscription by the application of that participant's entitlement to dividends in respect of the Plan Shares to the subscription for Shares at the subscription price.

### *Ranking of Shares*

All Shares allotted and issued under the Plan will rank equally in all respects with existing Shares.

### *ASX Listing*

The Company will make an application promptly after each allotment of Shares for quotation of such Shares on the Official List of the ASX.

### *Variation or termination of participation*

A participant may apply to increase or decrease the number of Plan Shares which the Company may in its absolute discretion approve or refuse. A participant may at any time terminate participation in the Plan by notice in writing to the Company.

## 11.6. ASX waiver

ASX Listing Rule 15.16 sets a maximum term of 5 years for an Investment Management Agreement. The Company will apply for an 'in-principle' waiver of ASX Listing Rule 15.16 to allow for a maximum term of 10 years under the Investment Management Agreement, which may be renewed with the approval of Shareholders for a further period of up to 10 years. The waiver is expected to be granted prior to the inclusion of the Company in ASX's Official List.

## 11.7. Investor considerations

Before deciding to participate in this Offer, you should consider whether the Shares and Options to be issued are a suitable investment for you. There are general risks associated with any investment in an

entity listed on the ASX. The value of Securities listed on the ASX may rise or fall depending on a range of factors beyond the control of the Company.

If you are in doubt as to the course you should follow, you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser immediately.

The potential tax effects relating to the Offer will vary between Investors. Investors are urged to consider the possible tax consequences of participating in the Offer by consulting a professional tax adviser.

## **11.8. Australian taxation implications of investing under the Offer**

### *Introduction*

The tax implications provided below only relate to Australian Securityholders who hold their Securities on capital account. Different tax implications apply to non-resident Securityholders or Securityholders whose Securities are held on revenue account.

The comments in this Section 11.8 are general in nature on the basis that the tax implications for each Securityholder may vary depending on their particular circumstances.

Accordingly, it is recommended that each Securityholder seek their own professional advice regarding the taxation implications associated with the Offer.

The comments in this Section 11.8 are based on the Income Tax Assessment Act 1936, and the Income Tax Assessment Act 1997, A New Tax System (Goods and Services Tax) Act 1999 and the relevant stamp duties legislation as at the date of this Prospectus.

This Section 11.8 provides a general overview of the Australian income tax implications of investing in the Company, based on current tax law. As such, it is not intended as a substitute for investors obtaining independent tax advice in relation to their personal circumstances.

If you are in doubt as to the course you should follow, you should seek independent tax advice.

### *Income tax position of the Company*

The Company will be taxed as a company at the prevailing company tax rate (currently 30.0% for businesses with an aggregate turnover of more than \$2,000,000, although the government has announced further tax rate reductions that may apply to the Company in future years). Foreign income tax offsets may be claimed by the Company, for any foreign income tax paid on behalf of the Company in respect of the Company's foreign income, to reduce the Australian income tax liability of the Company.

The Company will be required to maintain a franking account and may declare franked dividends to Shareholders. The Directors intend to frank dividends at 100.0%, or to the maximum extent possible.

### *Income tax position of Australian resident Securityholders*

A general outline of the tax implications associated with the Offer for Australian resident Securityholders who hold their Securities on capital account are set out below.

### *Treatment of Shares, Options and Rights*

The Offer comprises the issue of Shares and an entitlement or right (**Right**) to receive Options in the Company. To determine the Capital Gains Tax (**CGT**) cost base of each asset, an investor's subscription price may need to be apportioned between the Shares, Options and Rights based on their respective value.

On disposal of Shares, Options or Rights in the Company, an investor will realise a capital gain if the capital proceeds it receives or is deemed to have received for the disposal of the Shares, Options or Rights exceeds their respective cost base.

Where a Right held in the Company is not exercised or expires, a capital loss may arise equal to the tax cost base of the Right at the time of expiry. Where a Right is exercised and results in the issue of

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Options, no capital gain or loss arises from the exercise of the Right, but the tax cost base of the Rights will rollover into the Options.

Upon the exercise of the Options, no capital gain or loss arises but the tax cost base of the Options will be added to the exercise price to be included in the tax cost base of the Shares acquired.

A CGT discount may be available where the Shares, Rights or Options have been held for twelve months or more. Where this concession applies, any such capital gain will be reduced (after applying capital losses) by the following percentages:

- (a) 50.0% for an individual or trust; or
- (b) 33.33% for a complying superannuation fund.

#### *Dividends*

Dividends received by Securityholders who are Shareholders should be included in the assessable income of Shareholders. Generally, Shareholders will be taxed on the dividends at their relevant marginal rate. If the Shareholder is a company, the Shareholder will be taxed at the prevailing company tax rate (currently 30.0% for companies with an annual turnover of \$2,000,000 or more, and 28.5% for companies with an annual turnover of less than \$2,000,000, although the government has announced further tax rate reductions that may apply in future years).

Generally, to the extent that the dividends are franked, an amount equal to the franking credits attaching to the dividends will be included in the assessable income of the Shareholder. Further, Shareholders will generally be entitled to a tax offset equal to the amount of the franking credits on the dividend (i.e. Shareholders will effectively get a tax credit for the corporate tax paid in respect of the dividends).

Certain Shareholders (including individuals and complying superannuation funds) may be entitled to a refund of 'excess franking credits' where their tax offset in respect of the franked dividends exceeds their tax liability. The income tax rate for complying superannuation funds is 15.0%. Complying superannuation funds generally obtain a tax offset from franked dividends against their income tax liability, and any excess franking credits may be fully refunded.

A complying superannuation fund 100.0% in pension phase would be entitled to a full refund of franking credits, as all income of the fund would be attributable to the fund's liability to pay current pensions, and are therefore exempt from income tax.

#### *Status as a Listed Investment Company (LIC)*

It is intended that the Company will qualify as a LIC under Australian taxation laws.

The major requirements the Company must meet to be a LIC are:

- (a) the Company must be listed; and
- (b) 90.0% of the Portfolio value must comprise certain permitted investments as defined in section 115 290(4) of the *Income Tax Assessment Act 1997*.

Permitted investments include shares, options, units (provided the Company does not own more than 10.0% of the entity in which it holds the permitted investment) financial instruments, derivatives and assets that generate passive income such as interest, rent and royalties.

A LIC can distribute LIC capital gains for any capital gains made. However, it is expected that the Company will generally be considered to hold its investments on revenue account. Consequently, it is likely that the Company will generally not make capital gains and therefore, Shareholders may not be able to obtain a deduction in relation to dividends attributable to LIC capital gains under the LIC regime.

**Goods and Services Tax (GST)**

Securityholders should not be liable to GST in Australia in respect of the acquisition of Securities under the Offer. Securityholders may not be entitled to input tax credits (GST credits) for all or some of the GST incurred on costs associated with the acquisition of Securities under the Offer.

**Stamp duty**

Securityholders should not be liable to stamp duty in Australia in respect of the acquisition of Securities issued to them by the Company under the Offer.

**11.9. Legal proceedings**

The Company is a newly incorporated company which has not conducted any business to date. The Company is not and has not been, since its incorporation to the date of this Prospectus, involved in any legal or arbitration proceedings that have had a significant effect on the financial position of the Company.

As far as the Directors are aware, no such proceedings are threatened against the Company.

**11.10. Consents and Responsibility Statements**

Each of the following parties has given and, before lodgement of the paper Prospectus with ASIC and the issue of the Electronic Prospectus, has not withdrawn its written consent to be named as performing the below role in the form and context in which it is so named.

| <b>Name</b>  | <b>Role / Responsible</b>   |
|--|---|
| Watermark Funds Management Pty Limited   | Manager<br>All information about it, including its investment process in Section 4 and Section 5 and elsewhere in this Prospectus |
| Watermark Market Neutral Fund Limited  | All information about it and its performance history in Section 4.5 and elsewhere in this Prospectus                              |
| Australian Leaders Fund Limited  | All information about it and its performance history in Section 4.5 and elsewhere in this Prospectus                              |
| Equity Trustees Limited (ABN 46 004 031 298) as responsible entity of the Watermark Market Neutral Trust | All information about it and its performance history in Section 4.5 and elsewhere in this Prospectus                              |
| Watson Mangioni Lawyers Pty Limited  | Australian lawyers to the Offer   |
| Webb Henderson   | New Zealand lawyers to the Offer  |
| Pitcher Partners Sydney Corporate Finance Pty Ltd  | Investigating accountant for the Company<br>The Investigating Accountant's Report on Pro Forma Financial Information in Section 8 |
| Boardroom Pty Limited  | Share registrar for the Company   |
| Taylor Collison Limited  | Authorised Intermediary and Joint Lead Manager to the Offer   |
| Each of Commonwealth Securities Limited, Morgans Financial Limited, Morgan Stanley                       | Joint Lead Managers to the Offer  |

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| Name   | Role / Responsible |
|--|--------------------|
| Australia Securities Limited and Ord Minnett Limited |                    |
| White Outsourcing Pty Limited                        | Administrator      |

Each of the above parties has only been involved in the preparation of that part of the Prospectus where they are named. Except to the extent indicated above, none of the above parties has authorised or caused the issue of the Prospectus and takes no responsibility for its contents.

Each of the Joint Lead Managers has consented to being named as specified above, but does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by that Joint Lead Manager.

#### 11.11. Offer expenses

The Company will pay all of the costs associated with the Offer. These costs are fully described in Section 7.

#### 11.12. Interest of Experts

Other than as set out below, no expert nor any firm in which such expert is a partner or employee has any interest in the promotion of or any property proposed to be acquired by the Company.

*Watson Mangioni Lawyers Pty Limited* has acted as Australian solicitors to the Offer and have performed work in relation to preparing the due diligence program and performing due diligence enquiries on legal matters. In respect of this Prospectus, the Company estimates that it will pay amounts totaling approximately \$110,000 (plus GST and disbursements) to *Watson Mangioni Lawyers Pty Limited*.

*Webb Henderson* has provided New Zealand legal advice in relation to the Offer and provided the Company with an address for service in New Zealand. In respect of this Prospectus, the Company estimates that it will pay amounts totaling approximately NZ\$5,000 (plus GST and disbursements) to *Webb Henderson*.

*Pitcher Partners Sydney Corporate Finance Pty Limited* has prepared the investigating accountant's report included in this Prospectus and have also performed work in relation to the due diligence enquiries on financial matters. In respect of this work, the Company estimates that it will pay amounts totaling approximately \$35,000 (plus GST and disbursements) to *Pitcher Partners Sydney Corporate Finance Pty Limited*.

In accordance with the Offer Management Agreement, the Company will pay the Joint Lead Managers a management fee of 1.20% (plus GST) of the total proceeds raised under the Offer (with each Joint Lead Manager receiving one fifth of this management fee).

The Company will pay *Taylor Collison Limited* an arranger fee equal to 0.05% (plus GST) of the total proceeds raised under the Offer. In addition, the Company will pay to each Joint Lead Manager a Broker Firm selling fee of 1.5% (plus GST) of the total proceeds of the Broker Firm Offer raised by the relevant Joint Lead Manager and their associated Brokers.

Certain partners and employees of the above firms may subscribe for Shares and Options in the context of the Offer.

## 12. Definitions and Interpretation

### 12.1. Defined Terms

In this Prospectus:

**AFSL** means Australian Financial Services License.

**Applicant** means an applicant for Shares and Options under this Prospectus.

**Application** means an application for Shares and Options under this Prospectus.

**Application Form** means the application form attached to this Prospectus.

**Application Monies** means the Application Price of \$1.10 multiplied by the number of Shares applied for.

**Application Price** means \$1.10 per Share.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** or **Australian Securities Exchange** means the ASX Limited or the securities exchange operated by ASX Limited.

**ASX Recommendations** means the ASX Corporate Governance Council's Corporate Governance Principles and Recommendation (third edition, March 2014).

**Authorised Intermediary** means Taylor Collison Limited, in its capacity as the authorised intermediary of the Offer.

**Board** means the board of Directors of the Company.

**Broker** means any ASX participating organisation selected by the Joint Lead Managers in consultation with the Company to act as a broker to the Offer.

**Broker Firm Application Form** means the Application Form to be used by Applicants who are participating in the Broker Firm Offer.

**Broker Firm Offer** means the broker firm offer referred to in Section 2.2.

**Broker Firm Offer Closing Date** means the closing date of the Broker Firm Offer, expected to be 5.00pm, 2 December 2016 or such other date as the Company may determine in its discretion.

**Closing Date** means the date by which valid Application Forms must be received being 9 December 2016 or such other dates as the Company may determine in its discretion.

**Collateral** means such securities or financial instruments or cash which the Company delivers or is required to deliver to the Prime Broker for the purpose of meeting any margin requirement in accordance with the International Prime Brokerage Agreements, and includes any certificate or other documents of title and transfer in respect of such securities, financial instruments or cash.

**Company** means Watermark Global Leaders Fund (ACN 614 536 560).

**Constitution** means the constitution of the Company.

**Custodian** means the custodian of the Company, initially being Morgan Stanley & Co. International plc. and any sub-custodians appointed by it in accordance with the International Prime Brokerage Agreements.

**Derivative** means a security, such as an option or futures contract whose value depends on the performance of an underlying asset and includes exchange traded and over-the-counter derivatives.

**Directors or Board** means the directors of the Company.

**Electronic Prospectus** means the electronic copy of the Prospectus, a copy of which can be downloaded at [www.wfunds.com.au](http://www.wfunds.com.au).

**Exposure Period** means the period of 7 days after the date of lodgement of the Original Prospectus with ASIC, which may be extended by ASIC by not more than 7 days pursuant to Section 727(3) of the Corporations Act.

**Exchange traded derivative** means a derivative that is quoted and may be traded on a regulated exchange.

**General Offer** means the offer referred to in Section 2.4.

**General Offer Application Form** means the Application Form to be used by Applicants who are not participating in the Broker Firm Offer.

**GST** means Goods and Services Tax and has the same meaning as contact in *A New Tax Systems (Goods and Services Tax) Act 1999 (Commonwealth)*.

**Hedge** mean an investment position intended to offset potential losses/gains that may be incurred by another investment position.

**HIN or Holding Identification Number** means the unique identifier of holders of shares on the CHES subregister issued by ASX Settlement.

**International Prime Brokerage Agreements** means the agreements between the Company, the Manager and the Prime Broker (as applicable), the terms of which are summarised in Section 10.3.

**Investment Management Agreement** means the investment management agreement between the Manager and the Company, the terms of which are summarised in Section 10.1.

**Investment Strategy** means the strategy to be used by the Manager in relation to the Portfolio, summarised in Section 3.2, involving actively managing the Portfolio in accordance with the guidelines set out in Sections 3.5 and 3.6 (as amended from time to time).

**Joint Lead Managers** means Taylor Collison Limited, Commonwealth Securities Limited, Morgans Financial Limited, Morgan Stanley Australia Securities Limited and Ord Minnett Limited.

**Listing Rules** means the listing rules of the ASX.

**LIC** means a listed investment company.

**Long and Short Positions** means Long Positions and Short Positions.

**Long and Short Portfolio** means a portfolio of Long Positions and a portfolio of Short Positions.

**Long Position** means holding either physically or via a derivative a positive amount of an asset in the expectation that the value of that asset will appreciate.

**Long Portfolio** means a portfolio of Long Positions.

**Manager** means the manager of the Portfolio appointed under the terms of the Investment Management Agreement, being Watermark Funds Management Pty Limited.

**Management Fee** means the management fees payable to the Manager in accordance with the Investment Management Agreement.

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**Market neutral portfolio** means a portfolio of investments with a market neutral structure described in Section 3.

**Maximum Subscription** means the maximum subscription being sought by the Company (before Oversubscriptions) under the Offer, being 100,000,000 Shares and Options.

**Minimum Subscription** means the minimum subscription being sought by the Company under the Offer, being 36,363,636 Shares and Options.

**MSCI AC World Net Index** means the free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance across 23 developed markets and 23 emerging markets countries in Australian dollars.

**NAV or Net Asset Value** means the value of a company's total assets less the value of any liabilities.

**NTA or Net Tangible Assets** means the value of a company's total assets less the value of its intangible assets and the value of its liabilities.

**Offer** means the offer of up to 100,000,000 fully paid ordinary Shares (at an Application Price of \$1.10 per Share) and 100,000,000 Options (exercisable at \$1.10 on or before 16 November 2018) to raise up to \$110,000,000 (with the ability to accept Oversubscriptions to raise up to a further \$40,000,000).

**Offer Management Agreement** means the offer management agreement between the Joint Lead Managers and the Company, the terms of which are summarised in Section 10.2.

**Official List** means the official list of the ASX.

**Opening Date** means the date the Offer opens, expected to be 7 November 2016.

**Option** means an option to be issued a Share with an exercise price of \$1.10 on the terms set out in Section 11.4.

**Original Prospectus** means the prospectus issued by the Company and dated 27 October 2016, replaced in full by this replacement Prospectus.

**Over-the-counter derivative** means a derivative that is not quoted on a regulated exchange and so may only be traded in an unregulated, or over-the-counter fashion.

**Oversubscriptions** means Applications for up to 36,363,636 Shares and Options over and above the Maximum Subscription amount of \$110,000,000.

**Performance Calculation Period** means:

- (a) for the first Performance Calculation Period, the period commencing on the date of issue of Shares and Options to the earlier of the date of termination and 30 June of the next calendar year;
- (b) thereafter and subject to paragraph (c), the period from the first day after the preceding Performance Calculation Period to 30 June of the next calendar year;
- (c) if the Investment Management Agreement expires on a day other than 30 June, the last Performance Calculation Period is the period from the first day after the preceding Performance Calculation Period to the date the Investment Management Agreement is terminated.

**Performance Fees** means the performance fees payable to the Manager in accordance with the Investment Management Agreement detailed in Section 10.1.

**Plan** means the Company's dividend reinvestment plan summarised in Section 11.5.

**Portfolio** means the portfolio of investments of the Company.

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**Portfolio's NAV** means the net asset value of the Company's Portfolio less the value of its liabilities from time to time.

**Prime Broker** means Morgan Stanley & Co. International plc.

**Priority Allocation** means the allocation of up to 27,272,727 Shares and 27,272,727 Options to Watermark Eligible Participants on the terms set out in Section 2.3.

**Priority Allocation Application Form** means the Application Form to be used by a Watermark Eligible Participant who is not participating in the General Offer or the Broker Firm Offer.

**Prospectus** means this replacement prospectus as modified or varied by any supplementary document issued by the Company and lodged with the ASIC from time to time.

**RBA Cash Rate or Benchmark** means the cash rate calculated and provided by the Reserve Bank of Australia.

**Related Body Corporate** has the meaning given to that term under Section 50 of the Corporations Act.

**Relevant Interest** has the meaning set out in the Corporations Act.

**S&P/ASX All Ordinaries Accumulation Index** means the index comprised of the 500 largest ASX listed stocks by market capitalisation.

**Securities** means the Shares and Options.

**Securityholders** means the registered holder of Securities in the Company.

**Share** means a fully paid ordinary share in the Company.

**Shareholder** means a registered holder of a Share.

**Securityholder Reference Number or SRN** is the unique identifier of holders of shares on the issuer sponsored sub-register.

**Share Registrar or Registry** means Boardroom Pty Limited (ACN 003 209 836).

**Short Position** means holding, either physically or via a derivative, a negative amount of an asset in the expectation that the value of that asset will decrease.

**Short Portfolio** means a portfolio of Short Positions.

**Short selling or shorting** means selling an investment (which has been borrowed from another party) with the intention of buying it back at a later date. Short selling also includes achieving this outcome through the use of derivatives.

**Value of the Portfolio** means the aggregate sum of the gross value of each investment less any liability directly or indirectly attributable to the acquisition, maintenance or disposal of any investment or the management and administration of the Portfolio incurred or accrued on or before the date of the calculation (including but not limited to any unpaid purchase consideration accrued legal or other expenses, brokerage, stamp duty, borrowings or other liabilities).

**Watermark Eligible Participant** means a person eligible to participate in the Priority Allocation, being investors in one or more of Australian Leaders Fund Limited or Watermark Market Neutral Fund Limited and Watermark Market Neutral Trust with a registered address in Australia or New Zealand.

**Watermark Funds** means entities currently managed by the Manager, namely Australian Leaders Fund Limited, Watermark Market Neutral Fund Limited and Watermark Market Neutral Trust.

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## 12.2. Interpretation

In this Prospectus the following rules of interpretation apply unless the context otherwise requires:

- (a) Words and phrases not specifically defined in this Prospectus have the same meaning that is given to them in the Corporations Act and a reference to a statutory provision is to the Corporations Act unless otherwise specified;
- (b) The singular includes the plural and vice versa;
- (c) A reference to an individual or person includes a corporation, partnership, joint venture, association, authority, company, state or government and vice versa;
- (d) A reference to any gender includes both genders;
- (e) A reference to clause, section, annexure or paragraph is to a clause, section, annexure or paragraph of or to this Prospectus, unless the context otherwise requires;
- (f) A reference to “dollars”, “AUD” or “\$” is to Australian currency;
- (g) In this document, headings are for ease of reference only and do not affect its interpretation; and
- (h) Except where specifically defined in the Prospectus, terms defined in the Corporations Act have the same meaning in this Prospectus.

## 12.3. Governing Law

This Prospectus is governed by the laws of New South Wales.

## 12.4. Approval

This Prospectus has been approved by unanimous resolution of the Directors of the Company.

Dated: 4 November 2016




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**Rohan Hedley**  
Chairman

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## Corporate Directory

### DIRECTORS

Rohan Hedley  
Philip Howard  
Justin Braitting  
Tim Bolger

### COMPANY SECRETARY

Matthew McShane

### REGISTERED OFFICE

MLC Centre, Level 22  
19-29 Martin Place  
Sydney NSW 2000

### SHARE REGISTRY

Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney

Telephone: 1300 737 760  
(inside Australia) or 61 2  
9290 9600 (outside Australia)

### INVESTIGATING ACCOUNTANT

Pitcher Partners Sydney  
Corporate Finance Pty Ltd  
Level 22, MLC Centre  
19 Martin Place  
Sydney

Ph: (02) 9221 2099  
Fax: (02) 9223 1762

### AUSTRALIAN LAWYERS TO THE OFFER

Watson Mangioni Lawyers Pty  
Limited  
Level 23  
85 Castlereagh Street  
Sydney

Ph: (02) 9262 6666  
Fax: (02) 9262 2626

### MANAGER

Watermark Funds  
Management Pty Limited  
Level 6, 139 Macquarie  
Street

Sydney NSW 2000  
Ph: (02) 9252 0225  
Fax: (02) 9252 1220

### ADMINISTRATOR

White Outsourcing Pty Limited  
Level 3, 99 Bathurst Street,  
Sydney NSW 2000

ABN 44 114 914 215 | AFSL  
440118  
Phone: +61 2 8262 2800  
[www.whiteoutsourcing.com](http://www.whiteoutsourcing.com)

### MANAGER'S CORPORATE ADVISOR

Seed Partnerships Pty Limited  
Level 10, 135 Macquarie Street  
Sydney NSW 2000

Ph: 02 9251 8845  
Email: [info@seedpartnerships.com](mailto:info@seedpartnerships.com)

### JOINT LEAD MANAGERS:

Commonwealth Securities Limited  
Ground Floor, Tower 1  
201 Sussex Street  
Sydney NSW 2000

Morgans Financial Limited  
Level 29, 123 Eagle Street  
Brisbane

Morgan Stanley Australia Securities Limited  
Level 39  
The Chifley Tower  
2 Chifley Square  
Sydney

Ord Minnett Limited  
Level 8, NAB House  
255 George Street  
Sydney

### AUTHORISED INTERMEDIARY AND JOINT LEAD MANAGER:

Taylor Collison Limited  
Level 16, 211 Victoria Square  
Adelaide

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