

# WaveStone Dynamic Australian Equity Fund

## ASIC Benchmarks and Disclosure Principles Report – 26 August 2015

This ASIC Benchmarks and Disclosure Principles Report (**Report**) provides specific information in relation to the WaveStone Dynamic Australian Equity Fund (ARSN 134 793 605) (**Fund**) which is issued by Fidante Partners Limited (ABN 94 002 835 592) (AFSL 234668) (**Fidante Partners, we, responsible entity, RE**). WaveStone Capital Pty Limited (**WaveStone or the investment manager**) is the investment manager of the Fund.

We recommend that you read this Report in conjunction with the Product Disclosure Statement (**PDS**) for the Fund before making an investment decision. A copy of the PDS for the Fund is available on our website at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf). This report is updated periodically and non-materially adverse information may be updated at [www.fidante.com.au/WaveStone](http://www.fidante.com.au/WaveStone). A paper copy of any updated Report or PDS will be given to you, without charge, on request by calling our Investor Services team on 13 51 53.

All capitalised terms used in this Report and not defined herein have the meaning given to them in the PDS.

### ASIC Benchmarks and Disclosure Principles

Some features of hedge funds can pose more complex risks for investors. The Australian Securities and Investments Commission (**ASIC**) require hedge funds to disclose information against two benchmarks and nine disclosure principles. These benchmarks and disclosure principles are designed to assist investors in understanding the risks of investing in the Fund and determine which investments are suitable for them.

The ASIC Benchmarks and Disclosure Principles covered in this Report are as follows:

<b>ASIC Benchmarks</b>	<b>For information on each benchmark refer to the following pages.</b>
ASIC Benchmark 1: Valuation of assets	Page 2 of this Report
ASIC Benchmark 2: Periodic Reporting	Page 2 of this Report
<b>ASIC Disclosure Principles</b>	<b>For information on each disclosure principle refer to the following pages.</b>
ASIC Disclosure Principle 1: Investment strategy	Page 3 of this Report
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ASIC Disclosure Principle 4: Valuation, location and custody of assets	Page 9 of this Report
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## Benchmark 1: Valuation of assets

This benchmark addresses whether valuations of the Fund's non-exchange traded assets are provided by an independent administrator or an independent valuation service provider.

**This benchmark does not apply to the Fund** as it does not currently hold assets that are not exchange traded. However, the Fund does have the ability to invest in non-exchange traded assets and if the Fund were to invest in these assets in the future there is a policy in place to ensure valuations would be provided by an independent external provider. For further information on the valuation of the Fund's assets, refer 'Unit prices and valuing assets and liabilities' on page 38 of the PDS of the Fund available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

## Benchmark 2: Periodic reporting

This benchmark sets out information that investors should likely be aware of, at least on an annual basis.

This benchmark addresses whether the RE will provide periodic reporting to investors in relation to certain key information on an annual and monthly basis. This benchmark is met as the RE has instigated a policy to provide detailed periodic updates on the Fund's holdings as required.

The following information will be included in the Fund's annual disclosure report:

- the actual allocation to each asset type;
- the liquidity profile of the portfolio of assets as at the end of the relevant period;
- the maturity profile of any liabilities at the end of the relevant period;
- the leverage ratio (including leverage embedded in the assets of the Fund, other than listed equities and bonds) at the end of the relevant period;
- details on the derivative counterparties engaged;
- the monthly or annual investment returns over at least a five-year period, or since inception if less than five years;
- any changes to key service providers since any previous report given to investors, including any change in any related party status.

On a monthly basis, the following information will be provided to investors:

- the current total net asset value (**NAV**) of the Fund and the redemption value of a unit in each class of units as at the date of the NAV. For further information on how the NAV of the Fund is calculated, please refer to 'Unit prices and valuing assets and liabilities' on page 38 of the PDS;
- any changes in key service providers since any previous report was provided, including any change in related party status;
- the net return on the Fund's assets after fees, costs and taxes; and
- any material change in the Fund's risk profile, strategy and investment team.

## Disclosure principle 1: Investment strategy

This disclosure principle is intended to ensure that investors are made aware of the details of the investment strategy for the Fund, including the type of strategy, how it works in practice, and how risks are managed.

### Investment strategy of the Fund

The Fund is a concentrated equity fund which is not managed in a way that attempts to track any stock index weight. WaveStone recognises the importance of franking credits and capital gains tax consequences available to investors.

For information on how the RE may change the investment strategy of the Fund and what notification will be provided to investors, refer to 'How we invest your money' on pages 16 and 17 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

### Investment style

WaveStone is an active, high conviction manager investing across the entire spectrum of the Australian and New Zealand share market and may also invest in international securities listed on exchanges in other developed markets. Typically, companies selected will be those that are prudently financed and well-managed, with a track record of success. Primary emphasis is placed on bottom-up stock picking through comprehensive research. The five-year focus will tend to favour higher growth companies.

### Investment philosophy

WaveStone:

- identifies businesses with superior corporate DNA operating within favourable industry dynamics that are expected to deliver above market earnings growth; and
- exploits inefficiencies whereby the market misprices the underlying medium to long term earnings potential.

Share prices over time typically reflect the growth in the level of a company's earnings. WaveStone's approach is to identify the higher growth companies where the market is generally not overpaying the earnings expectation. On occasion, the market will over-penalise lower growth stocks which can still provide the opportunity for outperformance via eventual recovery or takeover.

Conversely, the market may have excessive expectations or be unaware of a changed risk outlook for the company. In this situation, the stock may be a short-selling candidate.

Tax considerations are a high priority. WaveStone is highly cognisant of the benefit of franking credits to the end investor and the application of the 50% capital gains tax discount for stocks held for greater than 12 months. Total fund returns are calculated to include franking at 30 June each year.

### Key dependencies underpinning the strategy's ability to produce investment returns

The Fund will operate within a net equity exposure band of 50-100%, and expected returns will reflect a level of correlation with overall equity returns (typically the higher the level of net equity exposure, the higher the correlation with market returns). Where the Fund operates with a net equity exposure less than 100%, this typically insulates investors from the full extent of any market decline. Conversely, the lower the Fund's net equity exposure, the more likely the Fund's returns will trail a rising equity market. The investment manager deploys judgement and experience to determine the net equity exposure.

The remaining component of overall fund returns will also be determined by the success and failure of individual stock selection, referred to as stock alpha. Individual stock selection is determined by the application of WaveStone's stated investment philosophy and style (as explained above).

Interest rates and economic activity influence equity markets, generally low and falling interest rates and improving economic activity are positive factors on equity markets and investment returns. Conversely, generally high and rising interest rates and falling economic activity are negative factors on equity markets and investment returns.

### **The assets of the Fund**

The Fund is a concentrated portfolio of typically between 25 and 50 companies listed, or intended to be listed within 12 months, on Australian, New Zealand and international stock exchanges in other developed markets. The Fund may invest up to 30% of the Fund's net asset value in securities listed on New Zealand exchanges and up to 10% of the Fund's net asset value in securities listed in other developed markets. The maximum total exposure across both New Zealand and in other developed markets is 30% of the Fund's net asset value.

The portfolio weighting of a company will generally be determined by the level of undervaluation of the company, the quality of the company, the liquidity of the stock and manager conviction.

The portfolio weighting will not be determined by reference to the stock weightings in any index and is not constrained to be managed to the Performance Benchmark.

The Fund references the following diversification guidelines:

- Maximum 10% weighting to any one stock;
- Typically, a 30% weighting limit to companies outside the ASX 100; and
- 30% weighting limit to any one GICS Industry Sector (Level 2).

For further information on the assets of the Fund refer to 'How we invest your money' on pages 16 to 19 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

### **Location and currency denomination of the assets of the Fund**

The Fund primarily invests in shares of Australian companies.

The Fund may also invest up to 30% of the Fund's net asset value in securities listed on New Zealand exchanges and up to 10% of the Fund's net asset value in securities listed in other developed markets. The maximum total exposure across both New Zealand and other developed markets is 30% of the Fund's net asset value.

The Fund's investments in international securities may be denominated in foreign currencies. Refer to 'How we invest your money' on pages 16 and 17 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

### **Use of leverage, derivatives and short selling**

#### **• Leverage**

Gearing can be obtained by using an asset as a security for borrowing money to increase the amount of money available to the Fund for investment. While the Fund may borrow up to 50% of the Fund's net asset value, the Fund is restricted to a net equity exposure between 50-100%. Please refer to pages 10 and 11 of this document and 'How we invest your money' on pages 16 to 19 of the PDS of the Fund available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information on leverage.

#### **• Short selling**

Leveraging off WaveStone's existing market experience, short selling expands the range of available investment opportunities, enabling it to harvest return in both directions (that is, benefiting from outperforming and underperforming stocks), through all market cycles. WaveStone confines its modest short selling largely to the top ASX 200 companies predominantly for liquidity reasons and physical short positions in the portfolio are restricted to 50% of Fund capital. Please refer to pages 12 and 13 of this document and 'How we invest your money' on pages 16 to 19 of the PDS of the Fund available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information on short selling.

- **Derivatives**

The Fund primarily uses exchange traded derivatives; however, the Fund has the capacity to utilise over-the-counter (OTC) derivatives (although these are rarely used). Derivatives may be used to hedge market exposure via the use of Share Price Index (SPI) contracts. Contracts can be sold to lower the overall market exposure of the portfolio and remain within the net equity exposure limit of 100%. Where the Fund uses derivatives, WaveStone aims to manage the Fund to keep sufficient liquid assets in the Fund to meet all obligations associated with the derivatives. Please refer to page 12 of this document and 'How we invest your money' on pages 16 to 19 of the PDS of the Fund available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further details on how derivatives are used in the Fund.

### **Risk management**

Share portfolios are inherently exposed to risk at both the company level and market level. The main investment risks to which the Fund may be exposed are a result of:

- stock selection;
- industry diversification;
- the level of cash/gearing in the Fund i.e. under/over invested depending on point of cycle; and
- success in identifying short positions while avoiding takeovers of problem stocks short sold. This is achieved through the experience of WaveStone's investment team and the dynamic investment process.

Risk management is embedded in the investment process and is considered at the portfolio level as well as at the individual stock level. Risk is managed by:

- diversification across industry categories as well as by size;
- continuous portfolio monitoring to minimise unintended risks; and
- portfolio level risk controls.

Derivatives may also be used to hedge market exposure via the use of SPI contracts. Such contracts can be sold to lower the overall market exposure of the portfolio and remain within the net equity exposure limit of 50-100%.

For information on the key risks to the Fund, please refer to 'Risks of managed investment schemes' on pages 11 to 15 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

### **Changes to the investment strategy of the Fund**

The constitution of the Fund permits a wide range of investments, and gives the RE broad investment powers. The RE can change the investment manager and/or vary the investment objectives, strategies, benchmarks, asset allocation ranges and processes of the Fund. If this were to occur, the RE will provide unitholders written notice of any material variation which the RE believes unitholders would not have reasonably expected.

### **Disclosure Principle 2: Investment manager**

This disclosure principle is intended to ensure that investors have the necessary information about the people responsible for managing the Fund's investments, as well as the arrangement between the RE and any investment manager.

As RE of the Fund, Fidante Partners have appointed WaveStone as the investment manager of the Fund to invest and manage the Fund's portfolio. Under the terms of the appointment WaveStone must, amongst other things, provide an update to the RE at regular intervals regarding the performance of the portfolio of the Fund, including any possible operational or legal breaches. WaveStone must also retain a proper account of any transaction made in relation to the portfolio and assist the RE with any reasonable requests for information for compliance and auditing purposes.

Key information on the WaveStone investment team, including details on their qualifications, commercial experience and time spent executing the Fund's investment strategy is provided in the table below.

Team member	Key information	Details
<p><b>Catherine Allfrey</b> Director and Co-Founder Portfolio Manager B.Eco, Grad Dip App Fin. Investment experience: since 1994 Commencement date at WaveStone: 2006</p>	<p>Commercial experience</p> <p>Proportion of time spent executing Fund's investment strategy</p>	<p>Catherine has over 20 years of financial experience with companies such as SBC Warburg, Prudential and Colonial First State.</p> <p>Catherine's career includes roles in credit analysis prior to equity analyst roles in funds management and stockbroking. In 2002, Catherine became a portfolio manager for Colonial First State managing the Sector Neutral Fund as well as the TransTasman Share Fund.</p> <p>80%</p> <p>Catherine's role includes research, analysis, dealing and investment management of the Fund. Catherine is focused on Banks, Telcos/Media, Diversified Financials, Utilities and REITS.</p>
<p><b>Graeme Burke</b> Director and Co-Founder/Portfolio Manager B.Eco Investment experience: since 1988 Commencement date at WaveStone: 2006</p>	<p>Commercial experience</p> <p>Proportion of time spent executing Fund's investment strategy</p>	<p>Graeme has over 25 years of finance and investment management experience working for Coopers &amp; Lybrand, Argo Investments and Colonial First State.</p> <p>Graeme commenced his career at Coopers &amp; Lybrand in 1988 as a graduate in the Corporate Services Division, working on a wide variety of valuation and advisory assignments. In 1994, he moved into funds management industry with an investment analyst role in Argo Investments.</p> <p>Graeme joined Colonial First State in 1997 as an investment analyst specialising in smaller companies. At Colonial First State, Graeme progressed to become Head of Small Companies and was directly responsible for managing \$1.3 billion in funds, prior to his departure in early 2006.</p> <p>80%</p> <p>Graeme's role includes research, analysis, dealing and investment management of the funds. His focus is on the Discretionary Retail, Healthcare services, Contractors and Small Caps.</p>
<p><b>Raaz Bhuyan</b> Director and Portfolio Manager B.Eng/MBA/CFA Investment experience: since 1993 Commencement date at WaveStone: 2014</p>	<p>Commercial experience</p> <p>Proportion of time spent executing Fund's investment strategy</p>	<p>Raaz has over 22 years of financial experience spanning investment management, broking and project finance across Australia and India, working for companies such as Colonial First State, Wilson HTM, Merrill Lynch and ING Barings.</p> <p>Raaz commenced his investments career with ING Barings (India) as Director &amp; Country Head of Research, continuing in research with Merrill Lynch (India) and joined Wilson HTM after migrating to Australia. Raaz moved to Colonial First State in 2003 where he worked alongside Graeme Burke and Catherine Allfrey and later progressed to become Deputy Head of Equities, Growth Equities team, and was directly responsible for managing \$1.9 billion in funds under management.</p> <p>80%</p> <p>Raaz's role includes research, analysis, dealing and investment management of the Fund. Raaz is focused on Insurance, Materials, Food and Staples and Transport and Infrastructure.</p>

### Termination of the investment manager’s appointment

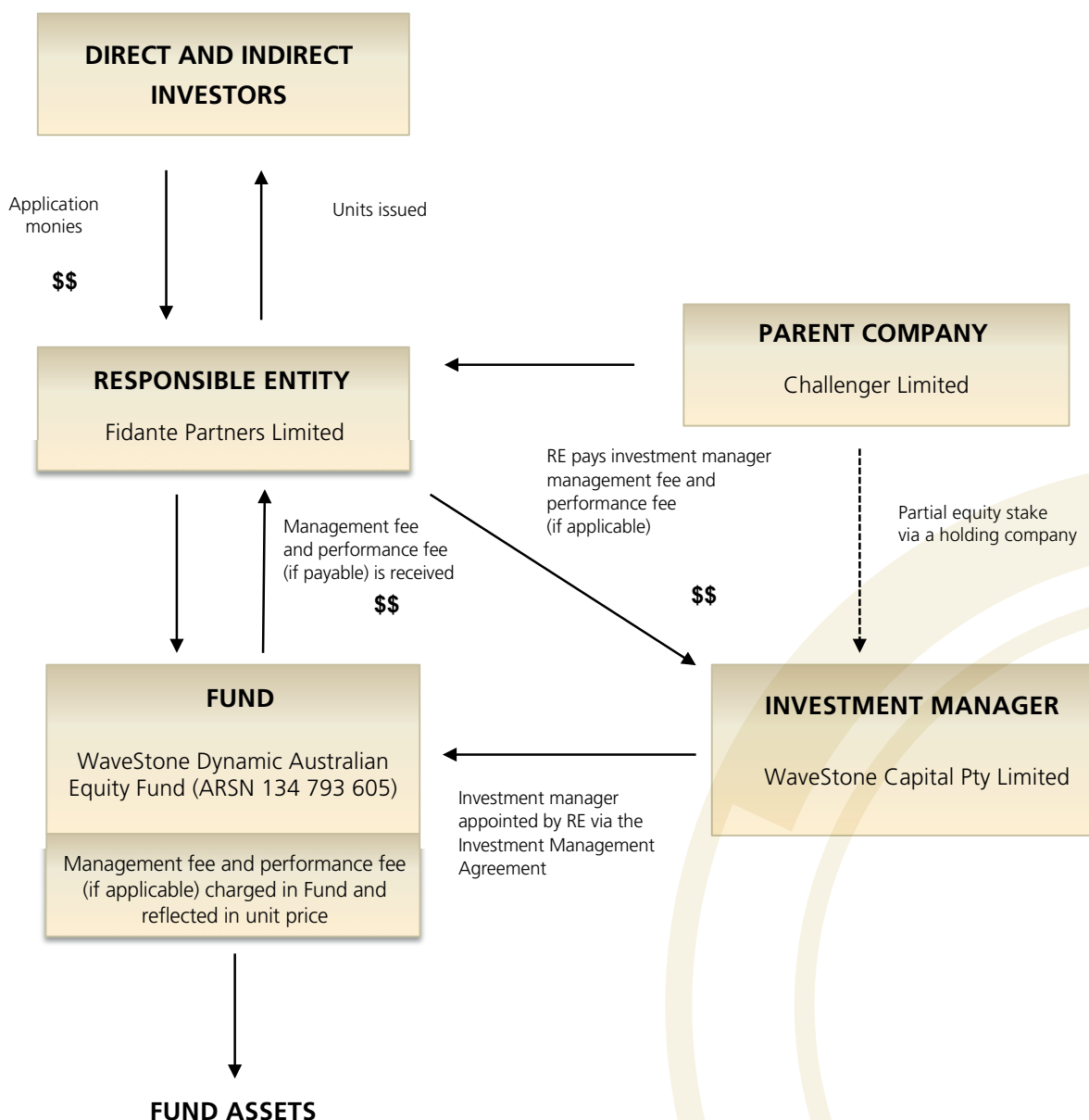
As RE of the Fund, Fidante Partners is entitled to terminate the investment manager’s appointment in writing, with a minimum five business days’ notice of termination. The appointment of an investment manager may be terminated under various circumstances, including the investment manager’s liquidation, ceasing to carry on or selling the investment management business, breach of the investment management agreement, or if the investment manager ceases to be licensed under the relevant law. Termination of an investment manager does not impact the accrual of performance and management fees and expenses during the period of termination.

### Disclosure Principle 3: Fund structure

The disclosure principle is intended to ensure that the investment structures, the relationships between entities in the structure, fees and other costs payable to the RE and investment manager, jurisdictions involved, the due diligence performed on underlying funds, and the related party relationships within the structure are explained.

#### The Fund’s investment structure

The diagram below shows the key entities involved in the Fund, their relationship to each other, their roles and the flow of investment money through the Fund as at the date of this document.



The key service providers of the Fund are outlined below:

Key service providers	Scope of services	Jurisdiction
<b>WaveStone Capital Pty Limited</b> <b>(ABN 80 120 179 419, AFSL 331644)</b>	<p>WaveStone is the investment manager of the Fund and responsible for all aspects of the investment management of the Fund.</p> <p>WaveStone is entitled to receive a management fee and performance fee (if applicable) for its management of the portfolio. For further information on WaveStone, please refer to 'About WaveStone' on page 1 of the PDS available at <a href="http://www.fidante.com.au/WDAEF_PDS.pdf">www.fidante.com.au/WDAEF_PDS.pdf</a>.</p>	Australia
<b>Fidante Partners Limited</b> <b>(ABN 94 002 835 592, AFSL 234668)</b>	<p>A wholly owned subsidiary and responsible entity of the Fund, Fidante Partners Limited will issue units in the Fund and is legally responsible to the unitholders of the Fund for its operation.</p> <p>For further information on Fidante Partners, please refer to 'About the responsible entity' on page 1 of the PDS available at <a href="http://www.fidante.com.au/WDAEF_PDS.pdf">www.fidante.com.au/WDAEF_PDS.pdf</a>.</p>	Australia
<b>Challenger Limited</b> <b>(ABN 85 106 842 371)</b>	<p>Subsidiaries of Challenger Limited have a partial equity stake in WaveStone Capital and provide back office, marketing, distribution, administration and compliance support services.</p>	Australia
<b>UBS Nominees Pty Limited</b> <b>(ABN 32 001 450 522) (AFSL 231088)</b>	<p>UBS Nominees Pty Limited has been appointed by the RE as the custodian for the Fund. The custodian provides custodial services to the Fund and is responsible for the safekeeping of the assets of the Fund. As custodian of the assets of the Fund, UBS Nominees Pty Limited has no independent discretion with respect to the holding of assets and is subject to performance standards.</p> <p>For further information on the custodian of the Fund, please refer to 'About the Prime Broker and Custodian' on pages 41 and 42 of the PDS available at <a href="http://www.fidante.com.au/WDAEF_PDS.pdf">www.fidante.com.au/WDAEF_PDS.pdf</a>.</p>	Australia
<b>UBS AG, Australia Branch</b> <b>(ABN 47 088 129 613) (AFSL 231087)</b>	<p>UBS AG, Australia Branch acts as the prime broker for the Fund to facilitate the Fund's investment activities.</p> <p>The services may include the provision to the Fund of margin financing, clearing, settlement, stock borrowing and foreign exchange facilities. The Fund may also use the prime broker for the purposes of executing transactions to the Fund. The prime broker has no decision making discretion relating to the investment of the assets of the Fund.</p> <p>The obligations of the Fund to the prime broker will be secured by transferring to the prime broker by way of security title to certain investments, cash or other assets of the Fund. Refer to 'About the Prime Broker and Custodian' on pages 41 and 42 of the Fund's PDS available at <a href="http://www.fidante.com.au/WDAEF_PDS.pdf">www.fidante.com.au/WDAEF_PDS.pdf</a> or further information.</p>	Australia
<b>Ernst &amp; Young</b> <b>(ABN 75 288 172 749)</b>	<p>Ernst &amp; Young is the registered company and compliance plan auditor for the Fund.</p> <p>The auditor's role is to provide an audit of the financial statements and compliance plan of the Fund each year, as well as performing a half-yearly review (if required), and to provide an opinion on the financial statements.</p>	Australia



The RE has entered into separate agreements with each service provider which sets out the terms and conditions of the relationship, as well as the consequences of any breaches to the terms of that relationship. The RE has agreements in place with each service provider for the provision of certain reporting obligations and adopts the following procedures to ensure compliance with these arrangements:

- Challenger and the RE monitors the services provided by the UBS Nominees Pty Limited as custodian and UBS AG, Australia Branch as prime broker primarily through its day-to-day dealings with these service providers.
- Ernst & Young provide audit services for the Fund's full-year statutory accounts and compliance plan as well as half-year opinions for half-year accounts (if applicable). Ernst & Young's services are conducted in accordance with the Corporations Act 2001, including auditing standards as revised by the Auditing and Assurances Standards Board.

### **Related party relationships**

As mentioned previously, a subsidiary of Challenger Limited has a partial equity stake in WaveStone. Fidante Partners has appointed WaveStone as the investment manager of the Fund. We may enter into transactions with, and use the service of, any of our related entities. Such arrangements will be based on arm's length commercial terms. We, or any or our related entities, or any director, officer or employee of any of them may invest in the Fund.

There are currently no material arrangements in place with the Fund that have not been made on arm's length terms.

### **Key risks of the Fund structure**

The key risks to the Fund's structure are counterparty risk, currency risk, fund risk and service provider/prime broker risk. For further information on these risks please refer to 'Disclosure principle 1: Investment strategy' on page 3 of this report and 'Risks of managed investment schemes' on pages 11 to 15 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

### **Disclosure principle 4: Valuation, location and custody of assets**

This disclosure principle is intended to ensure that the RE of the Fund discloses the types of assets held, where they are located, how they are valued and the custodial arrangements.

#### **Valuation policy of the Fund**

The Fund's assets and liabilities are usually valued each NSW business day. Generally, for unit pricing purposes, listed securities are valued using the last available market close price quoted on the relevant exchange. Any other assets such as cash and cash receivables are valued at recoverable value.

Any income entitlements, cash at bank, and any amounts of Goods and Services Tax (GST) recoverable from the Fund from the Australian Taxation Office (ATO) are also included in asset values used to calculate the investment and withdrawal unit price.

Generally, for unit pricing purposes, liabilities are valued at cost. Liabilities also include an accrual for management costs (which include a performance fee if payable) and for costs (if any) that an investor would ordinarily incur when investing in the Fund's underlying assets.

Refer to 'Unit prices and valuing assets and liabilities' on page 38 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for more information on how unit prices are calculated.

## Asset allocation of the Fund

Asset class	Min (%)	Max (%) <sup>1</sup>
Australian listed securities	50	150
Developed markets securities (Ex-Aus)	0	30
Sub-categories:		
New Zealand securities	0	30
Other developed markets securities	0	10
Exchange-traded derivatives	-100	150
Over-the-counter derivatives	-50	50
Cash equivalent investments	0	50
Other		
Net equity exposure	50	100
Gross equity exposure (the combination of long and short equity exposure)	50	250

<sup>1</sup> Includes use of leverage to increase the investment exposure of the Fund.

While the Fund may invest in shares of companies listed on New Zealand and international stock exchanges, WaveStone may, from time to time, seek to reduce currency exposure risk for the Fund by hedging the exposure certain investments may have to foreign currencies including, but not limited to, New Zealand dollar and US dollar, relative to the Australian dollar.

The custodian of the Fund, UBS Nominees Pty Ltd, is a service provider to the Fund. For more information on the custodial arrangements of the Fund, refer to PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) on pages 41 and 42 under 'About the Prime Broker and Custodian'.

### Disclosure Principle 5: Liquidity

This disclosure principle is intended to ensure that investors are made aware of the Fund's ability to realise its assets in a timely manner and the risks of illiquid classes of assets.

This disclosure principle does not apply to the Fund as the Fund reasonably expects to realise at least 80% of its assets, at the value ascribed to those assets in calculating the Fund's net asset value, within 10 days as at the date of this report.

### Disclosure Principle 6: Leverage

This disclosure principle is intended to ensure that investors are made aware of the maximum anticipated and allowed level of leverage of the Fund (including leverage embedded in the assets of the Fund).

The Fund may utilise debt as part of its investment strategy and has the ability to borrow up to a maximum of 50% of the Fund's net asset value. The level of borrowings (leverage) employed by the Fund has historically been and is anticipated to continue to be around 0-20% of net asset value. However it is important to note that while the Fund may have a gross equity exposure up to 250% of the Fund (maximum limit to long securities is 150% and short securities is 100%), the net equity exposure of Fund is restricted to 50-100%. This is achieved by shorting primarily Share Price Index (SPI) contracts and individual stocks.

Leverage utilised by the Fund may be undertaken through the prime broking relationship with UBS AG, Australia Branch who provides a prime broking arrangement that facilitates the Fund's investments. The use of assets as collateral for the Fund is dictated by this prime broking relationship with UBS AG, Australian Branch. Where the Fund enters into a leverage arrangement, the Fund's assets such as cash and certain investments may be used as collateral, and may be otherwise encumbered or subject to a set-off rights by the counterparty in the event.

The Fund must provide collateral to secure its obligations under the relevant prime brokerage customer documents. The amount of collateral is the value of the securities borrowed plus a margin. In the event that the value of the securities borrowed plus a margin exceeds the collateral provided, further collateral will need to be delivered so that the collateral equals the value of securities borrowed plus the margin.

Refer to 'Disclosure principle 3: Fund structure' of pages 7 to 9 of this document and the 'About the Prime Broker and Custodian' in the PDS at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information of the activities of the prime broker.

The below example shows the impact of leverage on investment return and losses, assuming maximum anticipated level of leverage (including leverage embedded in assets of the Fund, other than leverage embedded in holdings of listed equities and bonds):

#### Comparison of long only fund vs. WaveStone Dynamic Australian Equity Fund

- Assumes all funds perform in line with the equity market and SPI returns.
- Indicates how net equity exposure that is less than 100% moderate the impact of leverage.

Net assets	Long only fund (\$)	WaveStone Dynamic Australian Equity Fund (\$)
Long equities	100	120
Short equities		-10
	<b>100</b>	<b>110</b>
Borrowing		-10
Short SPI hedge		-30
Net assets	100	100
<b>Net equity exposure</b>	<b>100%</b>	<b>80%</b>
<b>Market movement up 10%</b>		
Long equities	110	132
Short equities		-11
Borrowing	0	-10
Change in SPI value		-3
Net assets	110	108
<b>Gain</b>	<b>10%</b>	<b>8%</b>
<b>Market movement down 10%</b>		
Long equities	90	108
Short equities		-9
Borrowing	0	-10
Change in SPI value		3
Net assets	90	92
<b>Gain</b>	<b>-10%</b>	<b>-8%</b>

For more information on how the Fund's uses leverage, refer to 'Disclosure principle 1: Investment strategy' on page 3 and 'Borrowings' on page 17 of the PDS and 'Gearing and leverage' on page 18 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

## Disclosure Principle 7: Derivatives

The disclosure principle is intended to ensure that investors are made aware of the purpose and types of derivatives used by the RE or investment manager, and the associated risks.

Derivatives are principally used to adjust or implement investment decisions, including hedging market exposure via the use of SPI contracts and as a risk management tool (such as managing the effect of interest rate or foreign currency movements). WaveStone can also use derivatives to gain exposure when they offer a more cost-effective way of purchasing the underlying security. Derivatives can be used to adjust levels of exposure to a particular market rather than purchasing physical assets, or put in place insurance for the portfolio.

The Fund primarily deals in exchange traded derivatives listed on the Australian Securities Exchange (ASX), New Zealand Stock Exchange (NZX) or on other developed markets but may use over-the-counter (OTC) derivatives. The Fund can deal in derivatives such as options (including options on futures), futures, warrants, swaps, swaptions, and currency derivatives (including forwards) to achieve its performance objective.

While the Fund has rarely used OTC derivatives to date, in the event the Fund uses OTC derivatives, WaveStone will only interact with large, institutional derivative counterparties whose capacity to meet financial commitments on obligations is considered satisfactory (typically with short-term issue credit ratings A-2 to A-1).

The main risks to the Fund as a consequence of dealing in derivatives are counterparty risk and derivative risk (including the risks relating to the collateral requirements of derivative instruments). For more information, refer to 'Disclosure principle 1: Investment strategy' on pages 3 to 5 and 'Derivatives' on page 17 of the PDS and 'Risks of managed investment schemes' on pages 11 to 15 of the Fund's PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

## Disclosure Principle 8: Short selling

The disclosure principle is intended to ensure that investors are made aware of how short selling may be used as part of the investment strategy, and of the associated risks and costs of short selling,

The Fund uses short selling as an investment technique and may improve capital allocation efficiency. Short positions are taken on particular stocks where WaveStone believes a security is overvalued and it is expected that these stocks will fall in price, or for hedging purposes.

As the Fund engages in short selling, the Fund may be exposed to short position risk where there is no limit on the maximum loss that can be incurred when short selling. Please refer to 'Disclosure Principle 1: Investment strategy' on pages 3 and 5 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information on short position risk.

Short selling will also increase the Fund's total gross effective exposure to the share market above 100% of its net assets. This in turn may magnify the exposure to other investment risks detailed in 'Disclosure Principle 1: Investment strategy' on pages 3 to 5 and 'Risks of managed investment schemes' on pages 11 to 15 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf). The Fund is restricted to short securities up to a maximum of 100% of the portfolio.

As part of the Fund's short selling strategy, the Fund may also borrow securities (from a lender of securities). In such case, the Fund pays the lender a fee for the borrowing and, depending on the agreement with the lender, the lender will earn interest on collateral lodged by the Fund (as borrower of securities) with the lender.

Short positions are also affected by risks associated with the lender of the security. There is the risk that the securities lender may recall a security that has been borrowed at any time. This means the borrower (i.e. the Fund) will have to find another securities lender willing to lend the security or buy the security on the share market within a short period of time. This may force the borrower to buy the security at an unfavourable price.

Short selling also exposes the Fund to other risks such as additional liquidity risk, counterparty risk and risks associated with securities lending risk. Refer to 'Disclosure Principle 1: Investment strategy' and the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information. To help manage any securities lending risk, there are requirements in place for borrowers to provide sufficient collateral as security for any lent securities, enforceable legal contracts between parties and undertaking securities lending through approved parties.

The below example outlines the potential gains and losses from short selling:

### Potential gains from short selling

#### Short sale of shares

In July, an investor borrows 300 XYZ shares and sells for \$150	\$45,000
In August, the investor buys back 300 XYZ shares for \$120 per share	<u>(\$36,000)</u>
<b>Net profit</b>	<b>\$9,000</b>

### Potential losses from short selling

#### Short sale of shares

In September, an investor borrows 300 XYZ shares and sells for \$150	\$45,000
In October, the investor buys back 300 XYZ shares for \$180 per share	<u>(\$54,000)</u>
<b>Net loss</b>	<b>(\$9,000)</b>

## Disclosure Principle 9: Withdrawals

The disclosure principle ensures that investors are made aware of the circumstances in which the Fund allows withdrawals and how these might change.

If a situation occurs where the assets that the Fund invests in are no longer able to be readily bought and sold, or market events reduce the liquidity of a security of an asset class, there is a risk that the generally applicable timeframe of five business days for meeting withdrawal requests may not be able to be met. This is because it may take longer to sell these types of investments at an acceptable price. In this case withdrawals from the Fund may take significantly longer than the generally applicable timeframe. Refer to 'Additional information about withdrawing your investment' on pages 32 and 33 of the PDS available at [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf).

The maximum timeframe in which we, as responsible entity, have to meet a withdrawal request is set out in the constitution of the Fund. Where the Fund is not liquid (as defined in the Corporations Act 2001), you may only withdraw when we make an offer to withdraw to all investors under a statutory withdrawal offer, as required by the Corporations Act 2001. Please refer to the Fund's PDS on [www.fidante.com.au/WDAEF\\_PDS.pdf](http://www.fidante.com.au/WDAEF_PDS.pdf) for further information on withdrawal arrangements for the Fund.

If an investor wishes to request a withdrawal from the Fund, the direct investor can request a withdrawal by telephone or fax or in writing. A withdrawal request, either in whole or in part once received by us may not be withdrawn without our agreement. Indirect investors must complete the withdrawal documentation required by their IDPS operator.

If your withdrawal would cause your balance to fall below the current minimum balance amount of \$10,000 or \$1,000 when a Regular Savings Plan is established, this may be treated as a request for full withdrawal.

Withdrawals from the Fund are not currently funded by an external liquidity facility.

In the event there are any material changes to withdrawal rights, investors will be notified of these changes in writing as soon as practicable.

Issued by Fidante Partners Limited (ABN 94 002 835 592) (AFSL 234668). The Fidante Partners business unit is a division of Challenger Limited.

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This document contains general information. In preparing the information contained in this ASIC Benchmarks and Disclosure Principles Report, we did not take into account your particular investment objectives, financial situation or needs. As investors' needs and aspirations differ you should consider whether investing in the Fund is appropriate for you in light of your particular needs, objectives and financial circumstances. You may also wish to obtain independent advice, particularly about individual matters such as taxation, retirement planning and investment risk tolerance.

**Consents**

WaveStone Capital Pty Limited has provided its consent to the statements about it in the form and context in which it was included. It is not responsible for the issue of this Report, nor is it responsible for any particular part of this Report, other than the parts that refer to it. It has not withdrawn its consent before the date of this Report.

UBS AG, Australia Branch has provided its consent to the statements about it in the form and context in which it was included. It is not responsible for the issue of this Report, nor is it responsible for any particular part of this Report, other than the parts that refer to it. It has not withdrawn its consent before the date of this Report.

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