ASIC Benchmarks and Disclosure Principles for the Specialist Geared Australian Share Fund

18 October 2024

Important information

ipac Asset Management Limited (ABN 22 003 257 225, AFSL 234655) is the Responsible Entity of the AMP Capital Specialist Geared Australian Share Fund (ARSN 107 656 182) ('Specialist Geared Australian Share Fund' or 'the Fund') and issuer of this document.

National Mutual Funds Management Ltd (NMFM) (ABN 32 006 787 720, AFSL 234652) is the Investment Manager of the Fund and has been appointed by the Responsible Entity to provide investment management and other associated services in respect of the Fund.

In this document NMFM is referred to as 'we', 'our' or 'us'.

Unless otherwise specified all dollar amounts in this document are Australian dollars.

This document should be read in conjunction with and is taken to be included in the current Product Disclosure Statement (PDS) for the Fund.

The PDS contains important information about investing in the Fund and it is important that the investors read the PDS before making a decision about whether to acquire or continue to hold or dispose of units in the Fund. This document has been prepared for the purpose of providing general information, without taking into account any particular investor's objectives, financial situation or needs. Investors should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to their objectives, financial situation and needs.

The Australian Securities and Investments Commission (ASIC) has released ASIC Regulatory Guide 240 *Hedge Funds: Improving Disclosure* (RG 240), which includes benchmarks and disclosure principles to help investors better understand the characteristics of hedge funds and the risks associated with them.

Benchmarks and disclosure principles for the Fund as set out in this document, are taken to be included in the current PDS for the Fund and should be read in conjunction with the PDS.

This document will be reviewed annually and updated where material changes are identified.

A copy of the 'ASIC Benchmark and Disclosure Principles for the Specialist Geared Australian Share Fund' and a current PDS for the Fund are available online at **amp.com.au/investments/specialist-funds/specialist-geared-australian-share-fund** (Fund page) and can also be obtained free of charge, on request.

Benchmarks

1. Valuation of Assets

BENCHMARK: The responsible entity has and implements a policy that requires valuations of the hedge fund's assets that are not exchange traded to be provided by an independent administrator or an independent valuation service provider.

This Benchmark is met as the Responsible Entity's valuation policy requires the Fund's assets that are not exchange traded to be valued by an independent administrator.

Exchange traded assets

The Fund invests primarily in Australian and global securities which are exchange traded and prices are available on exchanges. Derivatives in which the Fund invests are also exchange traded. The Fund's exchange traded assets are valued at least each business day using the closing price on the relevant exchange.

Non-exchange traded assets

The Fund may also invest in companies which may soon be listed. These securities are valued daily at IPO cost by the Fund's independent administrator, BNP Paribas Fund Services Australasia Pty Limited (BNP Paribas), in accordance with its Securities Pricing Policy. All valuations for the assets of the Fund are in accordance with our Asset Valuation Policy.

2. Periodic Reporting

BENCHMARK: The responsible entity has and implements a policy to provide periodic reports on certain key information as set out in the table below.

Periodic reporting of key information	

Monthly updates	The following information is available on the hedge fund's website and is disclosed monthly or, if less often, at least as often as investors have the right to redeem their investments and in reasonable time to allow investors to consider that information in making a decision whether to redeem their investment:
	– the current total net asset value of the fund and the redemption value of a unit in each class of units as at the date the net asset value was calculated
	– the key service providers if they have changed since the last report given to investors, including any change in their related party status, and
	– for each of the following matters since the last report on those matters:
	  – the net return of the fund's assets after fees, costs and taxes
	  – any material change in the fund's risk profile
	  – any material change in the fund's strategy, and
	  – any change in the individuals playing a key role in investment decisions for the fund.

Annual (or more frequent) reporting	The responsible entity has and implements a policy to report on the following information as soon as practicable after the relevant period end: – the actual allocation to each asset type – the liquidity profile of the portfolio assets as at the end of the period – the representation of asset liquidity (the estimated time required to sell an asset at the value ascribed to that asset in the fund's most recently calculated net asset value) in a graphical or other form that allows easy comparison with the maturity profile of the liabilities – the maturity profile of the liabilities as at the end of the period – the representation of maturities in a graphical form that allows easy comparison with the liquidity profile of the portfolio assets – the leverage ratio (including leverage embedded in the assets of the fund, other than listed equities and bonds) as at the end of the period – the derivatives counterparties engaged (including capital protection providers) – the monthly or annual investment returns over at least a five-year period (or, if the hedge fund has not been operating for five years, the returns since its inception), and – the key service providers if they have changed since the latest report given to investors, including any change in their related party status. This information must be given to members as often as, and no later than or as soon as practicable after, any periodic statement required by section 1017D of the Corporations Act 2001 (but in any event no later than six months after the end of the relevant period).
Ongoing availability	The latest report, which addresses the above matters, is available on the hedge fund's website.

The Fund does not meet the requirements of this Benchmark in full. The Fund meets the benchmark with the exception of the following:

- In relation to Monthly Reporting, the Fund does not report on the following information as, in the opinion of the Responsible Entity, it is not relevant to the Fund:
  - the current total net asset value of the Fund and the redemption value of a unit in each class of units as at the date the net asset value was calculated, as this is reported on a quarterly basis.

- In relation to Annual Reporting:
  - the actual asset allocation and investment return information is updated more frequently. Actual asset allocation on a quarterly basis and investment return information on a monthly basis. Below we outline our reporting.
  - liquidity profile – this report is not relevant as the assets are highly liquid (are predominantly exchange traded). The Responsible Entity can reasonably expect 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, and
  - maturity profile – this report is not relevant for the reasons noted above under liquidity profile.

NMFM provides key information in relation to the Fund on our website (**amp.com.au/investments/specialist-funds/specialist-geared-australian-share-fund**) or upon request, free of charge.

Monthly reporting

The Fund issues the following information on a monthly basis (or in some instances more frequently) and is available on request from the Client Services team and on the website, **amp.com.au/investments**:

- net investment return for the Fund as at month end, after fees, costs before tax, for periods of one month, three months, one year, three years, five years and since inception (the Fund was established in December 2004). We report investment performance on a before tax basis, and
- daily application and redemption unit prices.

This information is available on the website, **amp.com.au/investments**.

Quarterly reporting

The Fund issues the following information on a quarterly basis:

- current total net asset value of the Fund as at month end (the method of how we value assets is explained in the relevant asset valuation policy, a summary of which is available from us on request), and
- actual allocation to each asset type as at each quarter as set out in the asset allocation guidelines in the Product Disclosure Statement.

Annual reporting

The Fund issues the following report on an annual basis:

- leverage ratio – the Fund's gross asset exposure is available in the Fund's annual financial accounts, and the leverage ratio is available in the latest performance report on the website at **amp.com.au/investments/specialist-funds/specialist-geared-australian-share-fund**
- derivative counterparties engaged. This is available in the latest performance report on the website at **amp.com.au/investments/specialist-funds/specialist-geared-australian-share-fund**, and
- fund financial statements. This is available on request from the Client Services team and on the website. **amp.com.au/investments**.

Ongoing availability

The Fund issues the following information on an ad-hoc basis:

- details of key service providers if they have changed since the latest report given to investors, including any change in related party status.
- to the extent applicable:
  - any material change in the Fund's risk profile or investment strategy
  - any material change in the Fund's custodian, administrator or investment manager, and
  - any change in the individuals playing a key role in investment decisions (as noted under Disclosure Principle 2).

Disclosure Principles

1. Investment Strategy

DISCLOSURE PRINCIPLE 1: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1 a description of the fund's investment strategy, including:
- the typical asset classes to be invested in
- the typical location and currency denomination of the assets, and
- the role of leverage, derivatives and short selling

2 an explanation of how the strategy will produce investment returns

3 any key dependencies or assumptions underpinning the strategy's ability to produce investment returns

4 what the diversification guidelines or limits are

5 any specific risks associated with the relevant investment strategy

6 disclosure of the key aspects of the Fund's risk management strategy, and

7 if and how the investment strategy can change and what notification would be provided to investors.

The Fund meets this Disclosure Principle.

Investment strategy

The Fund primarily invests in a portfolio of Australian companies listed, or about to be listed, on the Australian Securities Exchange (ASX). These sectors may include:

- financials (such as companies within banking and insurance)
- resources (such as companies in the mining industry)
- consumer services (such as supermarkets)
- healthcare
- telecommunications services
- industrials (such as companies primarily focused on the provision of commercial services and supplies, or machinery manufacturing or construction engineering), and
- energy.

The Fund may also hold up to 15% in cash, however in certain market conditions the Fund may hold higher levels of cash to support the Fund in meeting its investment objectives.

The Fund may also invest up to 5% in companies listed on international exchanges, including Australian companies listed overseas, where these investments are seen to add value and are consistent with the Fund's investment objectives.

The underlying managers may employ either a fundamental bottom–up stock selection process to gain a more accurate understanding of a company's earnings profile or a quantitative process to seek to take advantage of pricing anomalies that exist based on associations such as value and momentum investing.

Secondly, the Fund's investment is geared, whereby the Fund takes out a loan and invests the proceeds together with the application money from investors. Gearing provides the Fund with the ability to borrow in order to increase the amount that can be invested. The aim of this is to contribute more capital and to provide greater exposure to the Australian share market. We aim to manage gearing to a level that enhances returns over the long term. We expect the dividend income to exceed borrowing and other costs, and therefore enable the franking credits to pass through to investors. We aim to use dividend income of the Fund to make loan repayments.

We adhere to guidelines designed to minimise the risks associated with gearing. These include but are not limited to the following:

- the Fund's forecast income (dividend yield) from its investments must exceed the loan's interest expense
- the underlying investments must have a moderate level of tracking risk relative to the Fund's performance benchmark
- regardless of the Fund's level of income the target gearing ratio is up to a maximum of 60%, which means that the investment manager will not borrow while the Fund's total borrowings are at a value greater than 60% of its total assets. This ratio is calculated by dividing the total interest bearing liabilities by the total assets of the Investment Fund.

We review the gearing ratio daily and rebalance regularly in accordance with these guidelines.

The gearing level is managed to ensure continued compliance within the current capitalisation safe harbour rules for continual tax deductibility of interest expenses.

The Fund may use derivatives such as options, futures, forwards and swaps with the aims of:

- increasing or reducing exposure to markets, relative to the underlying physical holdings and subject to the Fund's investment guidelines
- protecting against risks such as unfavourable changes in an investment's price brought about by, for example, changes in interest rates, credit risk, equity prices, currencies or other factors
- enhancing returns by taking advantage of favourable mispricings within a market, as a cost-effective alternative to purchasing physical securities, and
- implementing strategies to meet the Fund's investment objectives.

We impose restrictions on the use of derivatives within the Fund and monitor the implementation of these restrictions in accordance with the NMFM Derivatives Risk Statement, which can be obtained online at **amp.com.au/investments**, or free of charge by contacting us.

Explanation of how the strategy will produce investment returns

The Fund aims to produce investment returns over the long term through active management, either fundamental bottom–up stock selection or quantitative, and through the use of gearing.

Gearing can result in significant variations in the value of the Fund's returns; consequently an investor can expect magnified returns and losses.

The Fund is not restricted in the sectors in which it invests. This unconstrained approach provides the Fund with the flexibility to take advantage of companies we believe are likely to appreciate.

Key dependencies or assumptions underpinning the strategy's ability to produce investment returns (eg market conditions or interest rates)

The Fund's ability to produce investment returns is a function of the following forces and strategies:

- market conditions
- manager skill and investment process, and
- gearing overlay.

Market conditions

As the Fund is to be fully invested in Australian equities, the market performance will dictate a significant proportion of the Fund's ability to generate investment returns.

Manager skill and investment process

Returns in excess of the market will be derived as a result of the underlying managers' investment process and the Manager's skill at reflecting the views of the process via portfolio construction.

We have applied our manager research process to identify skilled managers with the ability to outperform the market. Specifically, we have engaged underlying managers with varying investment processes focused on either fundamental bottom–up stock selection or quantitative research.

In addition to dependency on our ability to identify skilled managers, the key dependencies and assumptions underpinning each strategy are as follows:

Fundamental bottom–up stock selection

It is our view that company earnings and earnings expectations are the key drivers of stock returns. The Fund's underlying managers that we engage will look to take advantage of situations where the market is implying an unrealistic picture of a company's potential to generate earnings.

We believe the underlying managers' bottom-up company research, which includes frequent conversations with management and in-depth stock specific and industry analysis, allows them to gain a more accurate understanding of a company's earning profile. The underlying managers then look for opportunities in the market where they can profit from taking a view that differs from consensus by buying stocks that are likely to appreciate.

Quantitative research

It is our view that pricing anomalies exist based on associations of value and momentum investing. The Fund's underlying managers that we engage will look to exploit these pricing anomalies based on the following situations:

- value investing – where the market is implying an unrealistic picture of a company's potential to generate earnings, or
- momentum investing – where the price of stock has had high returns over the past three to twelve months and it is expected this will continue.

We believe the underlying managers' quantitative models, statistical research, in-depth stock specific and industry analysis, allows them to gain a more accurate understanding of a company's stock price and future direction. The underlying managers then look for opportunities in the market where they can profit by buying stocks that are likely to appreciate.

By adhering to these processes our assumption is that, over time, the underlying managers can generate returns in excess of the market, by selectively investing in companies which will outperform the broader index.

Gearing overlay

Returns in excess of the market may also be derived as a result of the gearing overlay process, which increases the Fund's exposure to Australian equity markets. Further, by applying a risk controlled dynamic gearing overlay, our assumption is that we can enhance the returns generated by the underlying managers.

The success or otherwise of these strategies will determine whether the Fund outperforms the overall market and together with market conditions, underpins the Fund's ability to provide investment returns.

Diversification guidelines or limits

The aim of diversification is to enhance the Fund's potential for performing at or above its relevant performance benchmark, with minimal variation in investment returns across different market conditions. Diversification supports the Fund in minimising the potential that one, or a small number of investments, dominate the portfolio as the primary driver of investment return or risk throughout the investment cycle. In order to achieve this, the Fund's investment team regularly assesses how its investments are expected to perform across different investment scenarios, adjusting the Fund's asset allocation mix within broad ranges in seeking to provide stable, risk-adjusted returns.

These ranges and constraints are detailed below:

Constraints	Range
Gearing ratio	Maximum 60% ie maximum total gross exposure of 250%
Australian equities range	Total exposure 85 - 100%
Cash constraint	This portfolio is subject to net physical cash and cash exposure being no more than 15% of the Portfolio
International listed securities exposure	Maximum 5% in international listed securities, where those securities are also listed on the ASX

Any specific risks associated with the relevant investment strategy

Please refer to the 'Risks of investing' section of the PDS.

Disclosure of key aspects of the Fund's risk management strategy

- meeting diversification guidelines and limits set up above
- a robust due diligence process relating to the selection of securities in the Fund (see the 'Due diligence process' section in 'Additional information about the Specialist Geared Australian Share Fund' in the PDS)
- risk measurement and stress testing is also conducted by an independent Investment Risk team at NMFM to raise awareness of any significant risks in the Fund

If and how the investment strategy can change and what notification would be provided to investors

If the Responsible Entity intends to make material changes to the Fund's investment strategy or investment objective we will advise investors in writing.

2. Investment Manager

DISCLOSURE PRINCIPLE 2: THE RESPONSIBLE ENTITY SHOULD DISCLOSE A DESCRIPTION OF THE FOLLOWING:

1. the identity of, and information on, any relevant significant adverse regulatory findings against any investment manager appointed by the responsible entity of the hedge fund
2. the identities, relevant qualifications and commercial experience (including information on any relevant significant adverse regulatory findings against) of any individuals playing a key role in investment decisions and the proportion of their time each will devote to executing the fund's investment strategy
3. if any of the assets are not managed by the responsible entity, any unusual and materially onerous (from an investor's perspective) terms in the agreement or other arrangement under which any investment manager is appointed and the scope of this appointment, and
4. the circumstances in which the responsible entity is entitled to terminate the investment manager's appointment and on what terms (including any payments).

The Fund meets this Disclosure Principle.

The Fund's specialist investment team is made up of investment professionals located in Australia with extensive experience. Information, as at the date of this document, in relation to the individual with the key role in investment decisions is set out in the table below.

There have been no relevant significant adverse regulatory findings against any individual playing a key role in investment decisions and who devotes time to executing the Fund's investment strategy.

The Fund is managed by National Mutual Funds Management Ltd (NMFM) pursuant to an investment management agreement. The Responsible Entity may terminate the investment management agreement immediately upon notice for cause, if otherwise agreed between the parties, or by giving NMFM at least a minimum period of notice and specifying the proposed date of termination.

Investment	Key Individual	Experience (Years)	Qualifications
Specialist Geared Australian Share Fund	Duy To	16	BAct, BCom, CFA, AIAA

DUY TO

Duy To is the Head of Public Markets at AMP Investments where he is responsible for investment strategy, portfolio construction and manager selection across Fixed Income and Equities. In addition, Duy is the portfolio manager for the Australian Shares and Emerging Markets sector portfolios across MySuper, Future Directions, Specialist, ipac and Experts' Choice Funds. Duy has more than 16 years' experience in investment management specifically focused on managing multi-manager portfolios. Prior to this, Duy held various pricing and valuation actuarial analyst roles at AMP Financial Services and AXA Asia Pacific across wealth management, annuities, individual risk and group risk product lines. He has also worked as a Financial Analyst at the ACT Department of Treasury. Duy holds a double degree in Actuarial Studies and Commerce, majoring in Finance from ANU. He is an Associate of the Institute of Actuaries and a CFA charter holder. Duy is currently undertaking a PhD in Finance at Bond University.

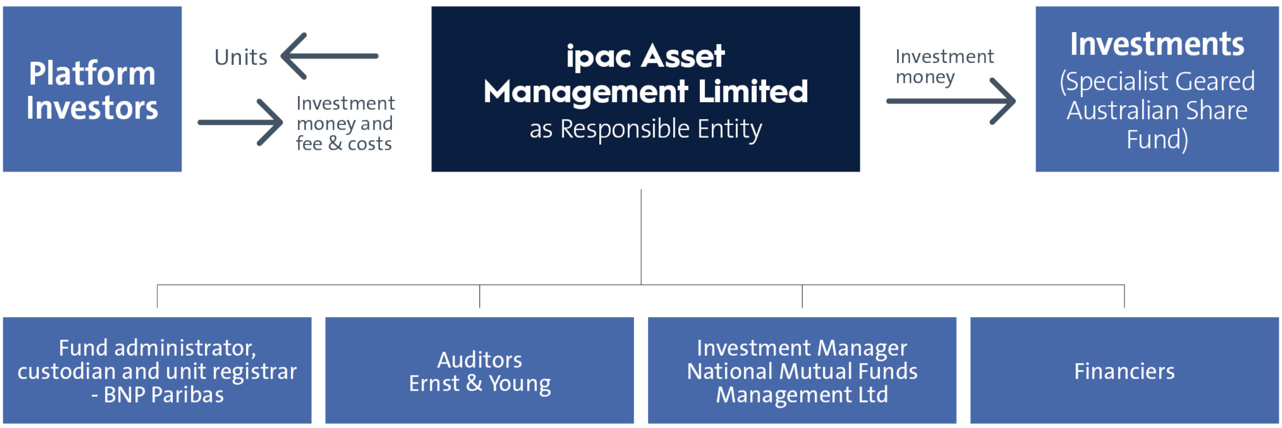
3. Fund Structure

DISCLOSURE PRINCIPLE 3: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1. the fund's investment structure - that is, the key entities involved (eg companies, funds, and limited partnerships), their relationship to each other and their roles, together with a diagram showing the flow of investment money through the structure
2. the identities of the key service providers (eg investment managers, prime brokers, custodian, administrator, valuation service provider and auditor) and scope of their services where applicable
3. how the responsible entity ensures that its key service providers will comply with their service agreement obligations
4. any related party relationships within the structure including any related party relationships between the responsible entity and the investment managers or between the responsible entity and the investment managers and any underlying funds, counterparties or any key service providers (including executing brokers) to the fund
5. the existence and nature of material arrangements in connection with the hedge fund that are not on arm's length terms (see Regulatory Guide 76 *Related party transactions* (RG 76))
6. for funds of hedge funds, the due diligence process performed on underlying funds and their key service providers
7. any fees and costs associated with investing in any underlying entity under Sch 10 of the Corporation Regulations 2001, as modified by ASIC Corporations (Disclosure of Fees and Costs) Instrument 2019/10170
8. the jurisdiction of the entities involved in the fund's structure, and
9. the risks of the structure, including any risks associated with the holding assets overseas or, for funds of hedge funds with investing in underlying funds overseas.

The Fund meets this Disclosure Principle.

The below shows the flow of investment money.



Key service providers

There are a number of parties who have been engaged by the Responsible Entity to provide services in relation to operating the Fund. A summary of the Fund's key service providers is shown below.

Fund administrator, custodian and unit registrar - BNP Paribas

BNP Paribas Fund Services Australasia Pty Limited (BNP Paribas) has been appointed to provide certain administration, registry services (for Wholesale and Class A), accounting, and custodial services to the Fund. NMFM has a dedicated team responsible for the ongoing management of outsourced service provider relationships in place. This activity is carried out by the Service Provider Relationship team in liaison with NMFM internal business units and senior management.

The ongoing review process of BNP Paribas includes a review of key performance indicators (KPI's) on a monthly basis. Failures of any of these KPIs allows NMFM to enforce a formal operational review of BNP operational processes on the basis of recurring KPI failures.

A wider governance framework also regulates the relationship between NMFM and BNP Paribas, via which NMFM is able to monitor its custodian and fund administrator. This framework provides for an issues log that is discussed during operational meetings held monthly or as required, a monthly relationship meeting, a biannual risk forum, a project oversight meeting and an incident reporting system, which provides NMFM with the ability to raise any issues that it deems will necessitate remedial action.

BNP Paribas also provides NMFM with a report on internal controls in operation and tests of operating effectiveness and design, prepared in accordance with international service organisation reporting standards (ISAE3042). This report describes the controls surrounding certain custody, fund administration, and registry functions of BNP Paribas' business. It is prepared in accordance with the guidelines contained in the SAS70 standards, entitled Reports on the Processing of Transactions by Service Organisations, issued by the American Institute of Certified Public Accountants. The focus of the report is on the internal controls of BNP Paribas and has been designed to provide information to be used by NMFM and their independent auditors. This is an internationally recognised official framework.

Firm auditors - Ernst & Young

Ernst & Young has been appointed as auditor to the Fund. We use Ernst & Young as external auditors and they are appointed at the AMP Group level. Ernst & Young has acted in this capacity for several years and their appointment is re-assessed on a periodic basis by the AMP Group Chief Financial Officer and the AMP Limited Audit Committee.

Financiers

One or more financial institutions act as financiers to the Fund to enable the Fund to leverage its investment portfolio, under a syndicated facility agreement.

Investment Manager - National Mutual Funds Management Ltd

The Fund's investment manager is National Mutual Funds Management Ltd (NMFM). The investment management agreement between NMFM and the Responsible Entity governs NMFM's provision of investment management services.

Related party transactions

Any transaction between NMFM or the Responsible Entity and any of their respective related parties must comply with the Corporations Act and related party protocols and AMP Group policies and procedures. For these purposes, a related party includes certain entities and individuals that have a close relationship with NMFM or the Responsible Entity. Related parties of the Responsible Entity include the Responsible Entity itself, entities that the Responsible Entity controls, funds operated or managed by the Responsible Entity and agents of the Responsible Entity.

As at the date of this additional disclosure, the relevant policies and procedures that apply to related party transactions of NMFM or the Responsible Entity are contained in the AMP Conflicts Management Policy. Under this Policy, the parties must transact on terms that would be reasonable if they were dealing at arm's length, relevant legislative requirements must be satisfied and the interests of investors must be protected. The Policy will be reviewed on a regular basis and may change from time to time. Further information on how we manage conflicts can be obtained by contacting us.

Under the Fund's constitution, the Responsible Entity may:

- deal with itself, an associate, investor or any other person
- be interested in, and receive a benefit under any contract or transaction with itself, an associate, investor or any other person, or
- act in the same or similar capacity in relation to any other fund.

The Fund's constitution also provides that amounts may be paid to related parties for services provided to NMFM or the Responsible Entity in connection with the Fund and for expenses such as those related to arranging for repurchase transactions on behalf of NMFM, through the use of repurchase agreements or through other lending instruments. These payments are on arm's length terms.

Fees and costs

In accordance with the Fund's constitution, NMFM is entitled to receive fees for the provision of services to the Fund and to be reimbursed for certain expenditure incurred in the administration of the Fund. For more information on the fees and costs charged to the Fund, please refer to the 'Fees and other costs' section of the PDS.

Jurisdiction of the entities involved in the Fund structure

The Fund is domiciled in Australia. The Fund currently predominately invests in Australian securities but may also consider investing in securities listed on overseas exchanges such as New Zealand, the United States of America or the United Kingdom.

Risks of the Fund's structure

Share market investments – The value of the Fund's listed securities may decrease as a result of adverse movements in Australian and international share markets. Share market investments have historically produced higher returns than cash or fixed interest investments over the long term. However, the risk of capital loss exists, especially over the shorter term. Specific risks relating to individual companies include disappointing profits and dividends, and management changes.

Investments in a managed investment scheme – When you invest in a managed investment scheme, you should be aware that:

- returns are not guaranteed – future returns may differ from past returns, and the level of returns may vary, and
- the value of your investment may vary, and there may be the risk of loss of invested capital.

Gearing and Refinancing risk – Gearing has the effect of magnifying returns, both positive and negative, which means that the risk of loss of capital may be greater than if gearing did not take place. The Fund has a syndicated facility agreement (agreement) with major banks. This agreement expires from time to time and there is a risk that any new agreement will not be under the same terms and conditions of previous agreements, as the cost and availability of leverage is dependent on the state of the broader credit markets, and increases in interest rates may affect the cost of borrowings and so reduce returns. Additionally, the Fund's ability to achieve its investment objectives may be affected where there are changes to its borrowing capacity, or if it is unable to obtain suitable finance or borrowings.

In connection with the loan taken out to provide the gearing, an event of default by the investment manager includes: failure by us to make payments when they are due to insolvency of us, or the Fund, and breach of one of our representations or warranties. The agreement is an unsecured facility, as such no assets are used as collateral. There is a risk that, if an event of default occurs, the loan providers may exercise their rights to demand the amount owing to be payable on demand or immediately due for payment by the Fund.

Brokers – The Fund's underlying securities or cash deposits will be used to meet Broker's collateral requirements from time to time. There is a risk that the Broker may default on their obligation to return cash or equivalent securities to us when due, which would have an adverse impact on your investment in the Fund. This may occur, for example, when the Broker becomes insolvent.

Derivatives – There are risks of losses to the Fund through the use of derivatives, and where derivatives are used by underlying funds in which the Fund invests, including:

- the value of a derivative may not move in line with the value of the underlying asset
- a derivative position cannot be reversed
- losses may be magnified, and
- the party on the other side of a derivative contract defaults on payments.

Currency exchange rates – Where the Fund's investments are located overseas, the relative strength or weakness of the Australian dollar against other currencies may influence the value of, or income from, an investment.

Currency hedging – the Fund's international investments may be fully or partially hedged back to Australian dollars. Where partially hedged, the Fund could incur reduced returns through any adverse movements related to hedging or currency exchange rates. Risks such as illiquidity or default by the other party to the transaction may also apply.

Less protection under laws outside of Australia – the laws under which assets located outside of Australia operate may not provide equivalent protection to that of Australian laws, which may mean that the Fund is unable to recover the full or part value of an offshore investment.

Changes in the state of the Australian and world economies may affect the value of your investment in the Fund.

4. Valuation, Location and Custody of Assets

DISCLOSURE PRINCIPLE 4: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1. the key aspects of the valuation policy
2. the types of assets that the fund does or may invest in and the allocation range for each asset type, using the following assets types (including the assets of underlying funds):
   - Australian listed equities
   - Australian unlisted equities
   - international listed equities
   - international unlisted equities
   - Australian government bonds
   - Australian corporate bonds
   - international government bonds
   - international corporate bonds
   - structured products
   - real property
   - infrastructure
   - exchange traded derivatives
   - over-the-counter (OTC) derivatives
   - cash equivalent investments, and
   - other (provide details)
3. any policy about the geographic location of the asset
4. the geographic location of any material asset, and
5. the custodial arrangements, including details of the roles provided by the custodian (where assets are not held by a third party custodian, the responsible entity should disclose the types and proportion of those assets relative to the fund's net asset value).

The Fund meets this Disclosure Principle.

Key aspects of the valuation policy

Valuations for the assets that the Fund holds are covered under the Valuation Policy.

This policy seeks to ensure that:

- valuations are calculated and applied consistently and equitably
- valuations include all assets of a fund at the point of valuation
- valuations are unbiased and are not subject to undue influence
- valuation processes are documented and transparent to ensure they are independently verifiable
- assets are valued as a 'going concern' basis, unless this assumption is inappropriate for a particular fund, for example where the fund is in the process of being wound up
- the methodologies used are appropriate for the nature of the assets
- the formulae or methods used are reviewed at appropriate periods, and
- the Responsible Entity satisfies its regulatory obligations.

Investments in forward contracts, futures contracts, options and swaps are valued on a daily basis by an independent administrator (BNP Paribas).

Types of assets the Fund invests in

Asset Class	Range	Benchmark
Australian listed equities	85 - 100%	100%
Cash	0 - 15%	0%

The Fund does not have a geographic allocation policy. The Fund's assets are predominantly listed on the ASX. Some securities are dual listed.

Custodial arrangements

BNP Paribas is the custodian of the assets of the Fund. See Disclosure Principle 3 for further information on BNP Paribas.

5. Liquidity

DISCLOSURE PRINCIPLE 5: IF THE RESPONSIBLE ENTITY OF A HEDGE FUND CANNOT REASONABLY EXPECT 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, THE RESPONSIBLE ENTITY SHOULD DISCLOSE:

1 a description of any asset class that has a value greater than 10% of the fund's net asset value and cannot be reasonably expected to be realised at the value ascribed to that asset in calculating the fund's most recent net asset value within 10 days, and

2 the key aspects of the liquidity management policy.

This disclosure principle and additional disclosure is not applicable to the Fund as the Responsible Entity can reasonably expect 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.

6. Leverage

DISCLOSURE PRINCIPLE 6: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1 the circumstances in which the hedge fund may use leverage and any restrictions on its use of leverage

2 the sources of leverage, including the type, the amount and the providers of the leverage

3 whether any assets are used as collateral, and the extent to which they are otherwise encumbered or exposed to set-off rights or other legitimate claims by third parties in the event of the insolvency of the responsible entity, a service or credit provider, or a counterparty

4 the maximum anticipated and allowed level of leverage (including leverage embedded in the assets of the fund, other than the leverage embedded in holdings of listed equities and bonds) as a multiple of the net asset value of an investor's capital in the fund (eg for every $1 of the fund's net asset value, the fund is leveraged $x), and

5 a worked example showing the impact of leverage on investment returns and losses, assuming the maximum anticipated level of leverage (including leverage embedded in the assets of the fund, other than leverage embedded in holdings of listed equities and bonds).

The Fund meets this Disclosure Principle.

The Fund may use leverage through such arrangements as borrowings. However, the Fund does not use derivatives to leverage the portfolio.

The Fund is not restricted in the amount that it can borrow, and may also borrow to meet its short term liquidity needs.

We aim to manage gearing to a level that enhances returns over the long term. We expect the dividend income to exceed borrowing and other costs, and therefore enable the franking credits to pass through to investors. We aim to use dividend income of the Fund to make loan repayments.

We adhere to guidelines designed to minimise the risks associated with gearing. These include but are not limited to the following:

- the Fund's forecast income (dividend yield) from its investments must exceed the loan's interest expense
- the underlying investments must have a moderate level of tracking risk relative to the Fund's performance benchmark
- regardless of the Fund's level of income the target gearing ratio is up to a maximum of 60%, which means that the investment manager will not borrow while the Fund's total borrowings are at a value greater than 60% of its total assets. This ratio is calculated by dividing the total interest bearing liabilities by the total assets of the Investment Fund. This means for every $1 invested in the Fund, an additional $1.50 may be borrowed to invest, resulting in a maximum gross exposure to the markets of up to 250%.

We review the gearing ratio daily and rebalance regularly in accordance with these guidelines.

Additionally, the gearing level is managed to ensure continued compliance within the current capitalisation safe harbour rules for continual tax deductibility of interest expenses.

Leverage is obtained by the Fund through a syndicated facility agreement with one or more financial institutions. Each selected financial institution:

– has been granted authority under section 9 of the *Banking Act 1959* (Cth) to carry on banking business in Australia either as an "Authorised Deposit-taking Institution" or as a "Foreign ADI" acting through an Australian branch; and

– is subject to prudential supervision in Australia by the Australian Prudential Regulation Authority.

The facility limit on the syndicated facility agreement is $690,000,000.

The syndicated facility agreement is an unsecured facility and as such no assets are used as collateral. If an event of default occurs in accordance with the syndicated facility agreement the financiers may exercise their rights to demand the amount owing to be payable on demand or immediately due for payments by the Fund.

Leverage example

If the Fund is leveraged to its maximum exposure of 250%, a $10,000 dollar investment will have $25,000 worth of exposure to share market movements and $15,000 worth of borrowings. The following table provides examples of two different scenarios of the Fund's performance and their theoretical outcome if the Fund was at its maximum level of gross market exposure. Note that this example does not take into account borrowing or trading costs.

Return on underlying securities	Total gross portfolio exposure	Total portfolio gain/(loss)	Total portfolio value
Portfolio return: +10%	$25,000 x 110% = $27,500	$2,500	$12,500
Portfolio return: –10%	$25,000 x 90% = $22,500	$(2,500)	$7,500

7. Derivatives

DISCLOSURE PRINCIPLE 7: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1 the purpose and rationale for the use of derivatives (eg investment hedging, leverage and liquidity), including how they form part of the hedge fund's investment strategy

2 the types of derivatives used or planned to be used

3 the criteria for engaging derivative counterparties (including principal protection providers)

4 the key risks to the hedge fund associated with the collateral requirements of the derivative counterparties, and

5 whether the derivatives are OTC or exchange traded.

The Fund meets this Disclosure Principle.

Purpose and rationale

The Fund may use derivatives for risk management purposes, performance enhancement or to optimise investment strategy implementation.

Derivatives may be used in the following circumstances:

– Hedging
  – Hedging is used to manage risk, reduce volatility or help to minimise the impact of fluctuations in market values. The Fund's strategy is not to hedge in normal circumstances. However, an active approach to hedging may be implemented where required to enhance portfolio returns or manage risk.

– Transaction efficiency and cost reduction
  – to achieve transactional efficiencies that cannot be obtained through the use of underlying assets through reduced transaction costs
  – obtain better prices that may not be available in the physical underlying assets market, and
  – alter investment holdings quickly and at low cost.

– Investment tactical reasons
  – adjust security or asset class exposures within the parameters set in the investment strategy of the Fund, and
  – control the impact of significant transactions on portfolio valuations; and take advantage of market imperfections.

Types of derivatives used or planned to be used

The Fund only uses exchange traded derivatives. Derivatives which may be used by the Fund include options, futures, forwards and swaps.

We impose restrictions on the use of derivatives within the Fund and monitor the implementation of these restrictions in accordance with the NMFM Derivatives Risk Statement, which can be obtained online at **amp.com.au/investments**, or free of charge by contacting us.

Criteria for engaging derivatives counterparties

Exchange traded derivatives do not have counterparties.

Key risks of derivative collateral requirements

The key risks associated with the collateral requirements of the derivatives counterparties are:

- counterparty credit risk (the risk that the failure of a counterparty will cause a loss due to the replacement cost of the contracts in the open market (usually OTC derivatives)
- settlement risk (the risk that the completion or settlement of individual transactions will not take place as expected), and
- reputation risk (the risk of a loss of business due to negative perception derived from dealings with brokers who hold low standards of market ethics and behaviour).

In order to mitigate these risks:

- there is a requirement to check if a derivatives trading agreement, International Swaps Derivatives Association (ISDA) agreement, or other appropriate derivatives documentation is in place. If there is no ISDA in place, our legal team must be engaged to ensure appropriate documentation is completed before any transactions can occur with the counterparty, and
- an ISDA can also include a credit support annex (CSA) which provides credit protection by setting forth the rules governing the mutual posting of collateral. CSAs are used in documenting collateral arrangements between two parties that trade privately negotiated (over-the-counter) derivative securities.

Whether the derivatives are OTC or exchange traded

Currently, the Fund only use exchange traded derivatives. Derivatives which may be used by the Fund include options, futures, forwards and swaps.

8. Short Selling

DISCLOSURE PRINCIPLE 8: IF A HEDGE FUND INTENDS OR IS LIKELY TO ENGAGE IN SHORT SELLING, THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1. the purpose and rationale for short selling, including how short selling forms part of the hedge fund's investment strategy
2. the risks associated with short selling, and
3. how these risks will be managed.

This Fund does not use short selling.

9. Withdrawals

DISCLOSURE PRINCIPLE 9: THE RESPONSIBLE ENTITY SHOULD DISCLOSE THE FOLLOWING INFORMATION:

1. any significant risk factors or limitations that may affect the ability of investors to withdraw from the hedge fund, including any gating restrictions that may be imposed or the requirement for requests for withdrawal only to be acted on under a statutory withdrawal offer if the hedge fund is not a liquid scheme or sub-fund as defined in the Corporations Act
2. how investors can exercise their withdrawal rights, including any conditions on exercise
3. if withdrawal is to be funded from an external liquid facility, the material terms of this facility, including any rights the external liquid facility provider has to suspend or cancel the facility, and
4. how investors will be notified of any material change to their withdrawal rights (eg if withdrawal rights are to be suspended).

The Fund meets this Disclosure Principle.

Please refer to the 'Accessing your money' section of the PDS. In addition to the information in the PDS we would note that:

- due to the nature of the underlying assets, the Fund does not have an external liquidity facility in place to fund redemptions, and
- We will notify all investors if there is any change to the withdrawal rights associated with the Fund.

Contacting the Responsible Entity and NMFM

For further information about investing with the Responsible Entity, please contact NMFM.

Client services

T: 133 267
8.30 am - 5.30 pm, Sydney time, Monday to Friday

E: ampinvestments@amp.com.au

W: amp.com.au/investments