netwealth

Netwealth Managed Account Service

Managed Account Guide

14 June 2024

The information in this Guide is taken to be included in the Product Disclosure Statement for the Managed Account ('**PDS**'). It has been prepared and issued by Netwealth Investments Limited (ABN 85 090 569 109, AFS Licence No. 230975) ('**Netwealth**', '**we**', '**us**' or '**our**') as the Responsible Entity of the Netwealth Managed Account Service ('**Managed Account**') which is a registered managed investment scheme, ARSN 633 923 887.

About this Guide

This Managed Account Guide ('**Guide**') contains important information about how your managed account works and some of the procedures we follow when you operate your managed account. It also includes information about Netwealth's role as the responsible entity of the Managed Account, the role of the Model Managers and the risks associated with investing in the Managed Account. This Guide should be read in conjunction with the PDS and the other disclosure documents referred to in the PDS. Part 1 of the PDS sets out some defined words and important terms which are also used in this Guide.

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Contents

Setting up your managed account

How to invest in the Managed Account

The Managed Account is only accessible via the Netwealth Wrap Service or the Netwealth Superannuation Master Fund (‘**platform services**’). If you do not have an account in these platform services, you need to open a Super Accelerator or Wealth Accelerator account (‘**platform account**’). To do this you need to obtain and read the appropriate disclosure document and complete an application for Super Accelerator or Wealth Accelerator.

By investing in the Managed Account using your platform account, we, as the platform operator or custodian, hold an interest in the Managed Account on your behalf.

You can select one or more Managed Models (‘**models**’) when you complete your platform account application or, if you already have a platform account, you can select models either online or by completing an ‘Investment instruction’ form. When you select a model you are instructing us, as the platform operator or administrator and custodian, to acquire an interest in the Managed Account on your behalf.

Each model has a minimum investment amount. This minimum differs depending on the model and is set out in the relevant Managed Models Booklet.

How to provide instructions for your managed account

You can only invest in the Managed Account through a platform account. To set up and operate your managed account, you can provide your instructions to Netwealth as operator or administrator of the relevant platform service, either through your online platform account or by completing the relevant forms.

In this Guide any reference to an instruction provided by you to us in relation to your managed account means an instruction you provide to Netwealth as operator or administrator and custodian of the platform service to implement in relation to your managed account.

How is your managed account set up?

When you choose models, you specify an amount to be allocated to each model. You may also set personal investment preferences, as described on page 13. We then establish a reference allocation to each investment that matches your chosen combination of models and investment preferences. Once funds are available in your managed account and any investment transfers are completed, investments are rebalanced to as closely as possible reflect that reference allocation.

Step 1	You select one or more models to include in your managed account and set a dollar amount or a percentage allocation to each model ('model allocation').	Example Managed Model 1 (20%) | Managed Model 2 (30%) | Managed Model 3 (50%)
Step 2	You select the investment preferences you wish to apply.	Your investment preferences Substitute, Hold, Lock, Minimum holding, Minimum trade, income instruction.
Step 3	We set a 'reference allocation' for each underlying investment in your managed account.	Managed Model 1 (20%) | Managed Model 2 (30%) | Managed Model 3 (50%) ↓ ↓ ↓ 'Reference allocation' of your managed account investments ↑ Your investment preferences
Step 4	We purchase the investments to reflect your choices.	'Reference allocation' of your managed account investments ↓ Investments purchased in your managed account[1] • Cash • Managed funds • ASX securities • International securities • Other investments made available from time to time by us.
Step 5	Where required we review the investments in your managed account against your reference allocation and, if necessary, rebalance your managed account.	Your managed account ↑ ↓ Review & rebalance 'Reference allocation' of your managed account investments

[1] Not all of these investment types are available if you choose the Core option in Wealth Accelerator or Super Accelerator.

The investments held in your managed account at any one time are likely to differ from the allocation to investments in your chosen models. There are a number of reasons for this, including:

- you may instruct us to apply certain personal investment preferences to your managed account;
- we require your managed account to include a minimum amount of cash in each rebalance (see below for more information);
- there is a minimum holding size in each investment;
- there is a minimum trade size for each transaction;
- the actual value or price at which investments are traded may not be equal to the value or price used to calculate your reference allocation;
- we cannot acquire partial units in certain investments, including ASX listed or international securities, which means that if the amount allocated to such an investment is not equal to an exact multiple of the unit price there is some cash left over; and
- smaller allocations to models may result in holdings or trades in an investment that would otherwise be less than the minimums and which may therefore not be implemented.

Where there are differences between the investment holdings in your managed account and the allocation to investments in your chosen models this may result in differences between the investment performance of your managed account and that of your chosen models.

Managed account cash account

Your managed account includes an allocation to cash to provide short term liquidity, to assist in the effective rebalancing of your managed account, to provide a buffer for the efficient settlement of trades and for the payment of fees. We have discretion to set the minimum allocation to cash and this is currently set at up to 2% of the value of your managed account.

The amount of cash held in your managed account cash account may be more than the minimum allocation set by us where cash is included in a model and/or where there are pending transactions that have not been completed. The allocation to cash for your managed account does not form part of your platform account cash account and cash held in your managed account cash account is not included in meeting the minimum cash requirement for your platform account.

Operating your managed account

Transacting

Minimum investment amount

Each model has a minimum investment amount. When you select one or more models, you must generally allocate to each chosen model an amount equal to or above the minimum investment amount required for that model.[2]

The minimum investment amount may vary between models and is set taking into consideration the investment strategy and the number and type of investments to be held in the model.

The value of your allocation to a model may fall below the minimum investment amount due to market movement, withdrawals, and/or the deduction of fees and costs. If the value is below the minimum investment amount, it increases the likelihood and the size of mismatches between the holdings and investment performance of your managed account and those of the model. You should consider reviewing your model allocation and whether the model is right for you.

Trading timeframes:

More information about the time taken to sell particular types of assets is available in the Information Guides and Wrap Service Guides which are part of the relevant platform disclosure document.

[2] We may, at our discretion, accept a request from you to invest below the minimum investment amount.

Minimum additional investment amount

You may add amounts to your managed account. The minimum addition to any model is $1,000. The minimum additional investment amount does not apply to automated reinvestment of income or excess cash from your platform account.

Transferring investments into your managed account[3]

You can transfer existing investments held in your platform account into your managed account. We may, at our absolute discretion, refuse to accept the transfer of an investment into your managed account.

Warning:
If you transfer investments into your managed account that exceed the allocation, when your managed account is rebalanced, part or all of the investments may be sold down.

When you instruct us to transfer one or more investments into your managed account, once the transfer or transfers is/are complete, any investment that you have transferred into your managed account is included in the next rebalance. If the value of that investment is different from your reference allocation, a rebalance occurs and the investment is traded to reflect the allocation to that investment in the models.

If investments that you wish to include in your managed account are held in your own name or with another service provider, this can be done by transferring the investments into your platform account and subsequently instructing us to transfer them into your managed account. Transferring investments into your platform account is subject to any restrictions on transfers or contributions and to timeframes as described in the relevant disclosure document for the platform service.

There may also be tax consequences of making such a transfer. Tax outcomes will vary depending on whether your managed account is held in the Netwealth Superannuation Master Fund or the Netwealth Wrap Service. Information about how tax applies to your platform account and to the investments held in those accounts is included in the disclosure document for your platform account.

Withdrawing cash from your managed account

You can instruct us to withdraw cash at any time. When you withdraw cash, your model allocation is adjusted accordingly and investments in your managed account are rebalanced. In some instances, the withdrawal amount will be made available progressively as the underlying investments are redeemed. The minimum withdrawal amount per model is $1,000.

Cash withdrawals from your managed account are paid to your platform account cash account and are subject to any restrictions applicable to the platform service you are using. Refer to the disclosure document for your platform account for information about making withdrawals from that account.

When you make a cash withdrawal from your managed account, you cannot generally reduce the value of your holdings in the model to less than the minimum investment amount applicable to that model.[4]

Certain models available in the Managed Account may include investments that are illiquid. An investment is treated as being illiquid if it cannot be converted to cash within 30 days. If a model contains an investment that is illiquid, this may limit your ability to make a cash withdrawal from your managed account and subsequently may also limit your ability to withdraw or transfer funds from your platform account. Models which may contain illiquid investments are flagged in the online 'Compare Funds and Models' for your platform account, and the relevant Managed Models Booklet also indicates if a model holds investments that are illiquid. Refer to the 'Investment risk' subsection in Part 1 of the PDS for more information.

[3] When you transfer an investment into your managed account, the investment is held by Netwealth in your managed account as responsible entity of the Managed Account.

[4] We may, at our discretion, accept a withdrawal request from you that results in the investment being below the minimum investment amount.

Transferring investments out of your managed account

You may be able to transfer investments out of your managed account into your platform account without the investment being sold by placing an online instruction through your platform account.

You should take care when transferring investments out of your managed account, as this may cause a rebalance to occur at the next review and more of the transferred investment may be purchased and other investments in your managed account may be sold.

Warning:
If you transfer an investment out of your managed account, unless you change your personal investment preferences, when the next rebalance occurs, more of this investment may be purchased.

The minimum value of a transfer out of your managed account is $1,000.

You can only transfer investments from your managed account to your platform account where the investment is an investment which is available for you to hold in your platform account. An investment may not be available for you to hold in your platform account because:

- it is not an allowable investment in the platform account; or
- you may not be eligible to hold the investment in your platform account. For example, certain investments are only available to wholesale investors.

If you are unable to transfer the investment to your platform account, and the investment in your managed account is sold, a taxable gain or loss may be realised as a result. Information about how tax applies to your platform account and to the investments held in or through those accounts is included in the disclosure document for your platform account.

Changing your Managed Models

You can change your allocation to selected models at any time by switching models through your online platform account or by completing and submitting an 'Managed Account Investment Instruction' form. If you change your model allocation, the investments in your managed account are likely to be rebalanced when your managed account is next reviewed by us.

Rebalancing

Rebalancing your managed account

When there are changes to your managed account or the models that you hold, we review the investments held in your managed account against your reference allocation and, where required, your managed account is rebalanced. We review your managed account at least weekly, and generally every weekday to identify if there have been changes that require a rebalance. A rebalance will generally only occur when the following things happen:

- the Model Manager changes the model;
- you make an additional investment in your managed account or you make a withdrawal from your managed account;
- you transfer investments into or out of your managed account;
- you make changes to your chosen models or to your personal investment preferences;
- the current cash allocation in your managed account is different from the cash target in your reference allocation by an amount set by us; or
- there are unfilled trades or orders from a previous day's rebalance which have not been completed (further information below).

Following a rebalance, the investments held in your managed account are unlikely to exactly match the reference allocation of your chosen models. If a rebalance requires a trade of less than the minimum trade size, then this trade generally does not occur. If a rebalance results in an existing investment holding being less than the minimum holding size and the trade is greater than the minimum trade size, then the investment may be sold down entirely. If a rebalance requires the acquisition of a new investment and this would otherwise result in a holding of less than the minimum holding size, then that investment may not be acquired.

The settlement of trades generated as a result of the rebalance is dependent on the type of assets being traded. For example, ASX listed securities will generally be settled 2 days after the trade date, whereas trades for international securities and managed funds may take a number of days to settle.

Sometimes market conditions may mean that we do not fill all the necessary trades required for a rebalance. In this instance there may be trades or holdings in your managed account of less than the minimum and a further rebalance may be required.

The price at which ASX and international listed securities are traded in your managed account is the price obtained by us for the type of trade (buy or sell) performed on the day the trade occurs. The price at which managed fund units within your managed account are bought or redeemed is the price set by the fund manager for the business day on which the trade occurs.

If a rebalance requires trades to occur, then transaction costs will apply as described in the 'Fees and other costs' section of the Managed Models Booklet.

Can we suspend rebalances?
We may suspend the rebalance process at any time at our absolute discretion and we do so in circumstances where we believe that it is in the interests of investors. A suspension may apply to your entire managed account or to certain investments within your managed account.

The rebalance process for your managed account may also be suspended when there are outstanding activities from corporate actions applying to investments in your managed account. Rebalances recommence once the corporate action activity is completed.

Where there are outstanding corporate actions we may, at our discretion and in consultation with the Model Manager, recommence rebalances, excluding that particular investment.

If rebalances are suspended, the investment management fee described in the Managed Models Booklet continues to apply based on your current model allocation and the value of your managed account on each day.[5]

Can you suspend rebalances?
If you have online access to your platform account, with the ability to transact online, you can suspend the rebalance process through your online platform account. You can also suspend the rebalance process when you complete your platform account application or by using a 'Managed Account Change of investment preferences/cancellation' form. This instructs us to stop any future rebalance trades occurring until you instruct us to recommence the rebalance process.

This may be useful when you wish to transfer investments into or out of your managed account, make changes to your investment preferences or change your model allocation.

Whilst your managed account remains suspended, there may be an increase in mismatches between the holdings and investment performance of your managed account and those of the model(s).

You should take care when recommencing the rebalance process if you have transferred investments to or from your managed account, as changes you have made to your investment holdings that do not match the models may be altered by the next rebalance unless you update your personal investment preferences.

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[5] However, the investment management fee will not be charged if we suspend rebalances due to you no longer being eligible to access the models. Refer to the 'What happens when you no longer have access to a model in your managed account?' section in this document for more information.

If rebalances are suspended, the investment management fee described in the Managed Models Booklet continues to apply, based on your model allocation and the value of your managed account on each day.

Minimum holding size

The minimum holding for any investment in your managed account is $100. Refer to 'Rebalancing your managed account' on page 6 for information about how the minimum holding impacts on the rebalance.

Where an investment is held in your managed account and the reference allocation to that investment falls below the minimum holding, the investment will be retained unless the Model Manager decides to redeem that investment.

You may specify a higher minimum holding size to apply to all investments in your managed account. A higher minimum may reduce the frequency of investment transactions and the associated costs, but it may also increase mismatches between the holdings and investment performance of your managed account and the models. Where you specify a higher minimum holding size and the reference allocation to an investment in your managed account falls below the minimum holding size by more than the minimum trade size, any existing holding in that investment may be sold or redeemed entirely.

Sometimes market conditions may mean that we do not fill all the necessary trades required for a rebalance. In this instance, there may be trades in your managed account that result in holdings of less than the minimum holding size.

Minimum trade size

The minimum trade size applies to any purchase or sale of an investment in your managed account when investments are rebalanced. The default minimum trade size is generally set at $100 or 0.05% of your total managed account balance, whichever is higher.[6]

You may choose to set a different minimum trade size which then applies to any future trades in your managed account. The minimum trade size cannot be lower than $100.

You should consider the impact that the minimum trade size will have on your investment. A higher minimum trade size may reduce the frequency of transactions and the associated costs, but it may increase the differences between the investment performance of your managed account and that of your chosen models.

Sometimes market conditions or the price of certain investments may mean that we do not fill all the expected trades required for a rebalance. In these instances, there may be trades in your managed account that are less than the minimum trade size.

Refer to 'Rebalancing your managed account' on page 6 for information about how the minimum trade size impacts on the rebalance.

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6 Where you have certain models in your managed account, we set the default minimum trade size at a different level. The minimum trade size is shown in your managed accounts profile available through your online platform account.

Reference allocation and floating allocation

The reference allocation and the underlying investments held within your managed account are determined based on the models you choose to invest in.

Your reference allocation 'floats' or moves in line with movements in the market value of the underlying investments and in some cases, with dividend and income payments from underlying investments ('floating allocation').

The reference allocation for your managed account may change as a result of the following:

- the market value of investments in your managed account changes constantly and the allocation to investments within each model and your reference allocation are adjusted to reflect those changes in the market value. The floating allocation prevents a rebalance occurring simply due to a change in market value;
- from time to time income is received from investments held in each model. When this occurs, if the model is set to accumulate income (refer to model income setting on page 14), the allocation to investments in the model and your reference allocation are changed to reflect the income received. The floating allocation prevents a rebalance occurring simply due to cash being added to your managed account. The income is allocated to that model as cash and is not invested until the Model Manager alters the allocation to investments held in the model; and
- if you make an additional cash investment into or a cash withdrawal from a particular model, your model allocation is adjusted to reflect the change.

Rebalance examples

The following tables provide examples of how the floating allocation and rebalancing operates assuming an initial investment of $100,000 in two models. For simplicity, these examples make no allowance for any fees or any required allocation to cash. These examples demonstrate the way a rebalance occurs when the actual holdings in your managed account do not align with the reference allocation for your managed account.

Example 1 – Impact of market movement in value of investment

The reference allocation floats with movements in prices and no rebalance occurs.

Managed Model	Reference allocation	Managed account holdings	
Opening investments:			
Model A (50% model allocation)			
50% Investment 1, price $1.00	25.0%	$25,000	25.0%
50% Investment 2, price $1.00	25.0%	$25,000	25.0%
	(50.0%)		
Model B (50% model allocation)			
50% Investment 3, price $1.00	25.0%	$25,000	25.0%
50% Investment 4, price $1.00	25.0%	$25,000	25.0%
	(50.0%)		
Total	100%	$100,000	100%
After review:		**No trades required.**	
Model A			
Investment 1, price $1.20	**27.4%**	**$30,000**	27.4%
Investment 2, price $1.18	**26.9%**	**$29,500**	26.9%
	(54.3%)		
Model B			
Investment 3, price $0.95	**21.7%**	**$23,750**	21.7%
Investment 4, price $1.05	**24.0%**	**$26,250**	24.0%
	(45.7%)		
Total	100%	$109,500	100%

The prices for each investment have changed due to market movement. Both the reference allocation and the value of the portfolio holdings have floated with the change of prices and no rebalance is required when the account is reviewed.

Example 2 – Impact of an additional investment in the Managed Account

Additional cash of $10,000 results in a rebalance.

Managed Model	Reference allocation	Managed account holdings	
Before review:			
Model A			
Investment 1, price $1.20	27.4%	$30,000	25.1%
Investment 2, price $1.18	26.9%	$29,500	24.7%
	(54.3%)		
Model B			
Investment 3, price $0.95	21.7%	$23,750	19.9%
Investment 4, price $1.05	24.0%	$26,250	22.0%
	(45.7%)		
Plus additional cash to be allocated		**$10,000**	8.4%
Total	100%	$119,500	100%
After review:		**Trades are made to rebalance portfolio.**	
Model A			
Investment 1, price $1.20	27.4%	**$32,740**	27.4%
Investment 2, price $1.18	26.9%	**$32,194**	26.9%
	(54.3%)		
Model B			
Investment 3, price $0.95	21.7%	**$25,919**	21.7%
Investment 4, price $1.05	24.0%	**$28,647**	24.0%
	(45.7%)		
Total	100%	$119,500	100%

$10,000 cash is added to the managed account prior to the review. This causes a rebalance to occur when the account is reviewed, with the $10,000 allocated across investments in line with the reference allocation (this assumes no change in market prices).

Example 3 – Impact of change by Model Manager to investment portfolio

Changes to Model A by the Model Manager alter the reference allocation and result in rebalance.

Managed Model	Reference allocation	Managed account holdings	
Before review:			
Model A			
60% Investment 1, price $1.20	**32.6%**	$32,740	27.4%
40% Investment 2, price $1.18	**21.7%**	$32,194	26.9%
	(54.3%)		
Model B			
Investment 3, price $0.95	21.7%	$25,919	21.7%
Investment 4, price $1.05	24.0%	$28,647	24.0%
	(45.7%)		
Total	100%	$119,500	100%
After review:		**Trades are made to rebalance portfolio.**	
Model A			
Investment 1, price $1.20	32.6%	**$38,960**	32.6%
Investment 2, price $1.18	21.7%	**$25,974**	21.7%
	(54.3%)		
Model B			
Investment 3, price $0.95	21.7%	**$25,919**	21.7%
Investment 4, price $1.05	24.0%	**$28,647**	24.0%
	(45.7%)		
Total	100%	$119,500	100%

The Model Manager for Model A decides to change the allocations to each investment. This changes the reference allocation and causes a rebalance to occur when the account is reviewed (this assumes no change in market prices).

Investment preferences you can nominate

There are a number of investment preferences you can use to customise your managed account, to suit your personal needs and objectives. These investment preferences apply to your entire managed account and cannot be applied to particular models. Investment preferences can be implemented by providing instructions to us through your online platform account or by completing and lodging a 'Managed Account Change of Investment Preferences/Cancellation' form. We may at our discretion refuse to accept a request to implement a particular investment preference in your managed account.

Warning:
If you instruct us to apply investment preferences, this may increase the number of trades and the transaction costs applied to your managed account.

Any personal investment preferences that you apply may alter the investment performance and behaviour of your managed account compared to that of your chosen models. There are likely to be a greater number of rebalance trades in your managed account and higher transaction costs if you apply a personal investment preference. You should consider these additional transaction costs and any taxable gains or losses which may be realised before applying a personal investment preference.

Model Managers make no allowance for your investment preferences when they make investment decisions, and give no consideration as to how your investment preferences may impact on the investment strategy or performance, or to differences in income, that may result from your instruction.

Substitute

You may instruct us not to buy or hold a particular investment in your managed account and, where this investment is included in your selected models, to hold another specific investment instead. An investment being substituted may be replaced by either cash or an allowable investment of the same type as the investment being substituted. For example, an ASX-listed share may be substituted by either cash or another ASX-listed share that is available in your platform account.

If you substitute an investment, the replacement investment is traded as if it is the investment for which it has been substituted.

Don't hold

You may instruct us not to buy or hold a particular investment in your managed account and, where this investment is included in your selected models, to spread its allocation proportionally across the other investments included in each model which has an allocation to the 'don't hold' investment.

If you have this investment in your managed account when you give the 'don't hold' instruction, or you transfer the investment into your managed account, without revoking the 'don't hold' instruction, the investment is sold down or redeemed when the next rebalance occurs.

Lock

You may instruct us not to trade (buy or sell) a particular investment that you already have in your managed account. A rebalance takes into account the market value of the investment but none of the locked investment is bought or sold. Any excess or shortfall to the locked investment's reference allocation in your managed account is spread across the other investments in your managed account when your managed account is rebalanced.

A lock applies to the entire holding of the locked investment in your managed account. You cannot lock part of a holding in an investment. The units or shares held in the investment that are not otherwise committed at the time it is locked are retained until the lock is removed.

Managed Account income instruction

Income instruction

You may set an income instruction for your managed account through your online platform account. You can choose between the following options:

- reinvest income in your managed account; or
- pay income to your platform account cash account.

If you choose to reinvest income in your managed account, income received is applied to your managed account cash account. If you choose to pay income to your platform account cash account, all income received from investments in your managed account is withdrawn from your managed account and paid into your platform account cash account. If you do not provide an income instruction, the default option is generally to reinvest income in your managed account.[7]

Your income instruction impacts on the rebalancing of assets in your managed account. The impact depends on the 'model income settings' (described below) that apply to each of your chosen models.

Model income setting

Each model has an income setting, which is shown in the relevant Managed Models Booklet. This setting determines how the income generated by assets in the model is treated when your managed account floats and is rebalanced. The model income setting is fixed for each model and is one of the following:

- Accumulate income: Income from investments held in the model accumulates in your managed account in the form of cash and is attributed to the model. As a result, the allocation to cash in the model is increased. The income remains as cash until the Model Manager alters the allocation to investments held in the model. This means that if your income instruction is set to pay income to your platform account cash account, then at the next review there may be less cash in your managed account than the cash allocation in the reference allocation. Your managed account may be rebalanced and investments may be sold across all the models you hold to satisfy the increased cash allocation; or

- Distribute income: Income from investments held in the model accumulates in your managed account, however the allocation to cash in the model is not adjusted to reflect the income. If you have set your income instruction to pay to your platform account cash account, the cash is transferred to your platform account cash account. If your income instruction is set to reinvest in the managed account (or no income instruction has been provided), at the next review a rebalance occurs and the cash is reinvested across all the investments and models in your managed account, in line with the reference allocation.

[7] For clients of certain financial advisers, the default income instruction option may be different or investors may be given additional options.

How do income settings impact the rebalance?

	Model income setting - accumulate income. The allocation to cash in the relevant model is increased when income is received.	**Model income setting - distribute income.** The allocation to cash in the relevant model does not change when income is received.
You choose to reinvest income in your managed account. Income remains in your managed account as cash.	**Rebalance transactions are not likely to occur.** The amount of income remaining in your managed account is consistent with the increased cash allocation in the model and no rebalance transactions occur until the Model Manager determines how to use the additional cash.	**Rebalance transactions are likely to occur.** The amount of income remaining in your managed account is higher than the cash allocation in your managed account. Investments may be purchased across all the models you hold.
You choose to pay income to your platform account cash account. Income received in your managed account is withdrawn from your managed account and paid to your platform cash account.	**Rebalance transactions are likely to occur.** As the income has been transferred out there is a shortfall of expected cash in your managed account. Investments may be sold across all the models you hold to satisfy the increased cash allocation at the next rebalance.	**Rebalance transactions are not likely to occur.** As the income has been transferred to your platform cash account, your cash holdings are consistent with the cash allocation in the model and no rebalance transactions occur.

Can you change the investments in your managed account?

You can instruct us through your online platform account to change your allocation to models as described on page 6 and you can set investment preferences as described on page 13. You can also instruct us to transfer a particular investment to or from your managed account as described on page 5.[8]

If you wish to implement a transaction in relation to a particular investment that is held in your managed account (for example, have a particular investment bought or sold or participate in a corporate action), you can suspend the rebalance process, request us to transfer the investment out of your managed account into your platform account[8] and undertake the required transactions in your platform account. If necessary you can then transfer investments back into your managed account[8] and subsequently instruct us to resume the rebalancing process. When the rebalance process resumes, if the value of any transferred investment is different from your reference allocation, then investments are traded to reflect the reference allocation.

You cannot provide any other investment instructions regarding particular investments held in your managed account. You cannot tell us to buy or sell a particular underlying investment in your managed account.

[8] Transfers to/from your managed account are subject to any limitations described on page 6.

What happens when you no longer have access to a model in your managed account?

There may be circumstances where you can no longer access a model in your managed account. For example, if the model is discontinued, or if the model is only available to clients of certain advisers or dealer groups and you cease to have a Nominated Financial Adviser who has access to that model.[9] In such cases:

- the investment management fee and the model fee (if applicable) described in the Managed Models Booklet for that model will cease to apply;
- other fees and costs described in the Managed Models Booklet that are associated with holding the underlying investments will continue to apply;
- your managed account will cease to be rebalanced;
- you will not be able to trade on the underlying investments until and unless you transfer them to your platform account (if they are permitted in your platform account); and
- we will write to you with available options and seek your instructions with regards to the underlying investments.

Communication about your platform account

The disclosure document for your platform account explains how we communicate with you about your platform account and the reports and statements you are sent or have access to in your online platform account. Information about the investments you hold in your managed account is included in these communications and you do not receive separate communications about the Managed Account investments.

If you have online access, you can access information about your transactions in your online platform account, including trades associated with rebalancing your managed account.

Corporate actions and voting rights

Investments held in your managed account may be subject to corporate actions or provide entitlements to vote in relation to certain matters. Corporate actions may include, but are not limited to, takeover offers, schemes of arrangement, rights issues, bonus issues, share purchase plans or share buy backs. Decisions about corporate actions applying to investments held in your managed account are made by us at our discretion and the outcomes are applied to the models accordingly. Generally, you are not provided with information about corporate actions in relation to investments held in your managed account. Where there are outstanding activities on corporate actions applying to investments in your managed account we may suspend rebalances as described on page 7. Generally we do not vote or seek your instructions on how to vote in relation to investments held in your managed account.

Our role as the responsible entity

The Managed Account is a registered managed investment scheme operated by us in accordance with a constitution dated 14 May 2019 as amended from time to time ('**the constitution**'). You may obtain a copy of the constitution free of charge from our website, by calling Freecall 1800 888 223 or contacting us at our address on the cover page of this Guide. We, in our capacity as responsible entity of the Managed Account, manage the investments in your managed account in accordance with the investment strategy of your chosen models and your personal investment preferences. In our capacity, as responsible entity of the Managed Account, we:

- determine the models to be made available in the Managed Account and appoint a Model Manager for each model (or perform the role ourselves);
- regularly review the investments in your managed account to identify whether a rebalance is required;

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9 This will be indicated in the Managed Models Booklet for the model as applicable.

- implement the rebalances in your managed account in accordance with your chosen investment preferences and the instructions provided by the Model Manager; and
- monitor and supervise the performance of Model Managers and, for each model, ensure compliance with the investment mandate for that model.

As the responsible entity of the Managed Account:

- we seek to implement the advice provided by the Model Manager in a timely and efficient way;
- we review decisions of the Model Manager to ensure they are consistent with the investment mandate of the relevant model, although it is the Model Manager, not us (unless we are the Model Manager), who makes decisions as to what investments are bought, held or sold in the models they manage (see 'The role of the Model Manager' section below);
- we may choose not to implement the advice provided by the Model Manager where we believe that doing so may breach relevant law or result in an outcome that is not consistent with the investment mandate of the relevant model; and
- we have certain duties under the *Corporations Act 2001* (Cth) and the constitution for the Managed Account, including the following:

  – we must act honestly and with reasonable care, fairness and diligence in performing our duties as responsible entity;
  – if another party (including a Model Manager) carries out functions for us, we must pay any compensation arising out of acts of the agents engaged by it;
  – we must generally act in accordance with your instructions in relation to your choice of managed models; and
  – we must keep your investments separately identified as far as practicable in our own records.

Under the constitution, we are not liable to you for any loss suffered in any way relating to the Managed Account, except to the extent that the *Corporations Act* imposes such liability.

As the responsible entity of the Managed Account, we are entitled to be indemnified out of the relevant investments in your managed account for any liability, loss, claim, demand and cost incurred by us or our agents or our delegate in properly performing or exercising any of our powers or duties in relation to the Managed Account for you.

The assets of the Managed Account may, to the extent permitted by law, be commingled with assets held by Netwealth in its capacity as custodian of other IDPSs, funds or schemes it operates and, in certain circumstances, its own assets.

The role of the Model Manager

The models are made available by us as the responsible entity of the Managed Account. Each model has a Model Manager who determines the investments of the model. We may be the Model Manager for a model, or we may appoint another investment manager to act as Model Manager. If another Model Manager is appointed, the role of the Model Manager includes:

- providing advice to us regarding the investment objectives and strategy of the model;
- providing advice to us regarding the investments to be held in the model;
- making changes to the investments to be held in the model and providing us with advice as to any changes made in order to allow us to rebalance the investments held in your managed account; and
- providing regular reports to us regarding the investments, the investment strategy and investment performance of the model.

The Model Manager must exercise due diligence and vigilance in carrying out their role.

Closure of models and removal of Model Managers

We may close a model or remove a Model Manager, without prior notice to investors at our discretion. Circumstances where we would close a model or remove a Model Manager include if we believe it is in the interests of investors or where the Model Manager breaches their agreement with us.

If we remove a Model Manager or a Model Manager resigns, we determine an appropriate course of action, which may include the appointment of another Model Manager to provide ongoing advice in relation to investments of the model or discontinuing the model.

If you have invested in a model that is closed, upon closure, rebalances are suspended and we seek instructions from you regarding the investments held in this model. For example, you may instruct us to transfer your holdings in the model to another model, transfer them to your platform account[10] or dispose of them[11]. If you instruct us to dispose of the assets within your managed account, taxable gains or losses may be realised as a result.

[10] Transfers from your managed account are subject to any limitations described on page 6.

[11] Also refer to 'Can we suspend rebalances?' on page 7.

Risks

It is important that you understand the applicable risks before investing in the Managed Account.

All investing involves some degree of risk. The values and returns of most investments fluctuate. Generally, the higher the potential return from an investment, the greater the associated risk.

You should consider getting professional advice that is tailored to your investment objectives, financial situation and particular needs, as this will assist you in deciding whether you are comfortable with the risks involved. If you do not understand all of the risks associated with the Managed Account, as described in this Guide and Part 1 of the PDS, you should ask your Nominated Financial Adviser, or an investment professional, to explain them to you.

Other risks of your platform account:

There are risks associated in investing through the platform services. Refer to the disclosure documents for your platform account for more information.

Risks associated with the Managed Account

There are risks associated with the operation of your managed account. Whilst we take reasonable steps to minimise or control risks where we can, these risks cannot be eliminated and may affect the performance of your managed account. Risks associated with the operation of your managed account include the following:

Investment diversification: some of the models available in the Managed Account operate using relatively concentrated investment portfolios. Having a small number of investments enables the Model Manager to focus on those particular securities, companies or funds and enables the operation of smaller investment portfolios necessary to enable you to hold the underlying investments in your managed account. However, this may lead to greater volatility in investment returns because the returns from a few investments can impact the investment returns of your portfolio as a whole.

Model Manager investment decisions: the investments in your managed account are based on the decisions of Model Managers. Investment management decisions are highly subjective, and while Model Managers are required to exercise reasonable care and diligence, there is a risk that their investment decisions may result in the model not achieving their objectives or your expectations.

Model mismatching: the actual investment holdings in your managed account are unlikely to exactly match the holdings of your chosen models. This can be caused by falling below the minimum investment amount for a particular model, the implementation of the minimum trade sizes and minimum holding sizes, the required allocation to cash, differences in timing and prices achieved for trades, suspending rebalances, and any personal investment preferences you instruct us to apply. As a result, the investment performance of your managed account is likely to differ from the reported outcomes of the models.

Model Manager risk: there may be changes to a Model Manager of a model, such as loss of significant staff, or a Model Manager may not apply their stated investment philosophy effectively.

Transaction and other costs: the amount of trading associated with rebalances has an impact on your transaction costs and investment performance. Trading may be caused by investment decisions of your Model Managers as well as by changes you make to your managed account such as additions, withdrawals, transfers, and model allocations. The application of minimum trade sizes, minimum holding sizes, investment preferences and distribution of income instructions and settings may also cause more frequent trading to occur as part of the rebalance, particularly on smaller account balances. Transfers, trades and income may also carry different tax consequences or treatment depending on which platform service you use.

Suspension of rebalances: if rebalances are suspended (as described on page 7) then your managed account may not reflect the most recent investment decisions made by your chosen Model Managers because they have not been implemented in your managed account during the suspension. This means that, while rebalances are suspended, you may miss out on gains on investments that would otherwise have been acquired in the model or you may incur losses on investments that would otherwise have been sold down in the model whilst the rebalancing of your managed account model is suspended.

Trading delays: during the rebalance process, it is possible that the completion of a trade may be delayed by more than a day, as described on page 6. This means that you may be 'out of the market' and you may not experience gains from a particular investment or market whilst trades are incomplete. We have processes in place that seek to mitigate or contain this risk but cannot eliminate the possibility entirely.

Operator and systems risk: operation of your managed account relies on our systems and processes to effectively and efficiently establish and rebalance models. If we experience an interruption or fault in our systems, this may cause the establishment of your managed account or a change or a rebalance to be delayed or not occur, in which case trades may not be implemented in your managed account on a timely basis and your managed account may not reflect the most recent investment decisions made by your chosen Model Managers. In addition, as the Managed Account is held using your platform account, the operator and systems risks described in the disclosure documents for your platform account are relevant in assessing the risks with your managed account. There is also the risk that a particular investment you wish to transfer into or out of your managed account may not be allowed in the platform account.

Model Manager information: operation of your managed account relies on the Model Manager providing us with updated information regarding the investments of the models on a regular basis. Any failure by the Model Manager to provide accurate, complete or timely advice to us or by us to receive and act on that information, may result in investment decisions made by your chosen Model Managers not being implemented in your managed account on a timely basis.

Investment risk

Investments made through the Managed Account carry investment risk, which may impact on the value of investments and/or limit our ability to sell or redeem investments at your direction.

Investment markets are affected by numerous factors. These factors may result in investment returns fluctuating over time, which is generally described as 'volatility.' At times, the value of investments may be less than the amount you originally invested. Some investments may carry higher risk of permanent loss of capital as a result of adverse market developments.

Growth investments (shares and property) have relatively higher risk (and volatility), and potentially higher returns, than defensive investments (fixed interest and cash). Some of the factors that influence volatility and returns are investor sentiment, general economic conditions such as changes in interest rates and inflation, rates of growth of the domestic and world economies and political events.

The type and extent of investment risk associated with investing in the Managed Account depends on which models you choose and may include the following:

Market risk: economic, technological, public health, environmental, political or legal conditions, and even market sentiment, can (and do) change. This means that changes in the value of investment markets may affect the value of investments. For example, global or regional events, such as the global financial crisis, pandemics and climate change, can directly or indirectly impact an entire market or certain asset classes, and the demand and supply of certain assets such as commodities, property or credit may impact related asset classes.

Currency and exchange rate risk: foreign currencies may fall in value relative to the Australian dollar, which may have a negative impact on investment returns. This risk applies to models that have an exposure to international investments that do not fully hedge currency risk. Where you use models that include international securities, all transactions are converted to Australian dollars.

Interest rate risk: changes in interest rates can have a positive or negative impact on investment value or returns. Models that have a direct or indirect exposure to fixed income or interest earning investments may be sensitive to movements in domestic and international interest rates. Generally, the value of fixed rate income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed rate income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed rate income securities tends to increase. The magnitude of these changes depends on the term to maturity of the security. In general, a fixed rate security with a longer term to maturity is more affected by interest rate changes. Generally, the value of floating rate income securities is relatively stable, however the coupon paid by floating rate securities generally reduces as interest rates fall and increases as interest rates rise.

Liquidity risk: there is the risk of not being able to withdraw from or sell an investment at short notice. This may occur for many reasons including, for example, if, in the case of a managed fund, the responsible entity of the managed fund suspends withdrawals because the investments of the managed fund have become illiquid or, in the case of listed securities, trading in that investment on the stock market is suspended for a substantial period of time. Where a model holds investments that have restricted or limited liquidity, our ability to rebalance your managed account and your ability to withdraw funds may be restricted. Furthermore, where it is necessary to liquidate investments to settle withdrawals, there is a risk that liquidation may be done on unfavourable terms. Some overseas markets do not provide the same level of liquidity as the Australian market and models that invest in small capitalisation stocks may also experience lower levels of liquidity. Where a model holds investments with less liquidity, it may be harder to trade these investments in a timely manner at a fair market price.

Settlement risk: there is a risk that a particular trade may not settle or be completed as intended. This risk is influenced by, amongst other things, market practices (for example settlement and custody practices), the creditworthiness of the parties the models are exposed to, and the level of government regulation in the places in which the models invest.

Emerging markets risk: models may have an exposure to emerging markets. Emerging market securities may be subject to higher levels of market volatility leading to higher general investment risk. Interest rate and currency risks may be greater due to higher levels of volatility in the economies of emerging markets. Furthermore, emerging market securities are often less liquid than the securities of developed markets. Counterparty and settlement risks are also increased.

Alternative strategies risk: models that are categorised in the Managed Models Booklet as 'alternative investments' or that include exposure to 'alternatives' in their investment strategy or investment universe as shown in the Managed Models Booklet, have increased inherent risks. These models may have investments in non-traditional investment classes, including hedge funds, private markets, commodities or infrastructure and exposure to derivatives or synthetic investments. These increased risks include a higher exposure to counterparty and settlement risk, liquidity risk, short selling risk and more leverage than traditional investment strategies.

Sovereign or political risk: loss of investment value may be caused by the internal actions of the government of a country to which the investment is exposed or external actions against the country. This may happen in a wide range of ways. Examples of internal actions include changes in the regulation of foreign investment or foreign ownership. External action may be in the form of hostilities by another state, economic sanctions, or a terrorist attack. Some overseas markets are more susceptible to these events than the Australian market.

Derivatives risk: models may be indirectly (e.g., through investment in managed funds) exposed to derivative instruments including currency forwards and swaps, interest rate and total return swaps and futures and options. Derivatives usually derive their value from the value of a physical asset, interest rate, exchange rate or market index. They can be used to manage certain risks in investment portfolios; however, they can also increase other risks in a portfolio or expose a portfolio to additional risks. A derivative contract typically involves leverage, i.e. it provides exposure to a potential gain or loss from an asset that exceeds the amount of cash or assets required to establish or maintain the derivatives contract. Consequently, derivative instruments can be highly volatile and expose investors to a high risk of loss.

Counterparty risk: models may have a direct or indirect exposure to cash, debt, derivatives (forward contracts), foreign currency transactions or other assets that are not listed on an exchange may be exposed to counterparty risk. This is the risk that another party to the contract may not honour their contractual obligations and the model incurs a loss.

Debt securities risk: models that have a direct or indirect exposure to fixed interest investments will be exposed to credit risk. Credit risk refers to the issuer of a debt instrument failing to meet an obligation to pay periodic interest or to repay the principal sum at maturity. In the case of fixed income securities which are of investment grade credit quality, the risk of default is considered to be lower than sub-investment grade securities. Unrated or low-grade debt securities are generally subject to greater risk of loss of principal and interest than higher-rated debt securities. Models that have an exposure to fixed interest may also be directly or indirectly exposed to debt securities that rank junior to other outstanding securities and obligations of the issuer, and debt securities that are not protected by financial covenants or limitations on additional indebtedness.

Short selling risk: models may have an indirect exposure to short selling risk. Short selling involves selling securities that may be owned or borrowed for delivery to the purchaser, with the obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent that such decline exceeds the transaction costs and the costs of borrowing the securities. Because the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities can result in a loss. A short sale may involve the risk of a theoretically unlimited increase in the market price of the particular investment sold short which, where short selling is undertaken, could result in the inability to cover the short position, and the risk of theoretically unlimited potential loss.

Leverage or borrowing risk: models and underlying investments may have an indirect exposure to leverage or borrowing strategies that can magnify both gains and losses on investment returns. Money borrowed will be subject to interest and other costs, which may or may not exceed the income received from the instruments purchased with borrowed funds. Leverage creates an opportunity for greater returns, but at the same time, significantly increases risk.

Index tracking error risk: models that are index tracking seek to provide investors with the same or similar returns (before fees are deducted) as the returns on the chosen index. Index tracking risk is the risk that the change in value of the model's investments will not exactly match or track the change in value of the index over a particular time period. This can be due to many factors including fees and expenses of operating the model, corporate actions such as mergers and buybacks and difficulty with rebalancing underlying investments where there is a change in the index being tracked.

General information only

The information provided in this Guide is general information only and is not intended to imply any recommendation or opinion about a financial product. This information does not take into account your personal objectives, financial situation or needs. You should consider whether the information is appropriate for you in light of your personal objectives, financial situation and needs, and you should consider consulting a financial adviser before making a decision about whether to invest in the Managed Account or any of the Models.