# Target Market Determination Definitions

**About this document**
This Target Market Determination ('TMD') Definition's document outlines the important terms used in the Netwealth GSS Managed Funds TMDs, Netwealth Managed Account Service TMD and the Netcash TMD.

**30 August 2024**
**Version 3.0 (current)**

| Term | Definition |
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| **Consumer's investment objective** | |
| Capital Growth | The consumer seeks to invest in a product designed or expected to generate capital return over the investment timeframe. The consumer prefers exposure to growth assets (such as shares or property) or otherwise seeks an investment return above the current inflation rate. |
| Capital Preservation | The consumer seeks to invest in a product designed or expected to have low volatility and minimise capital loss. The consumer prefers exposure to defensive assets that are generally lower in risk and less volatile than growth investments (this may include cash or fixed income securities). |
| Income Distribution | The consumer seeks to invest in a product designed or expected to distribute regular and/or tax-effective income. The consumer prefers exposure to income-generating assets (typically, high dividend-yielding equities, fixed income securities and money market instruments). |
| **Consumer's intended product use (% of Investable Assets)** | |
| Whole portfolio (up to 100%) | The consumer may hold the investment as up to 100% of their total *investable assets*.<br>The consumer is likely to seek a product with *very high* portfolio diversification. |
| Major allocation (up to 75%) | The consumer may hold the investment as up to 75% of their total *investable assets*.<br>The consumer is likely to seek a product with at least *high* portfolio diversification |
| Core allocation (up to 50%) | The consumer may hold the investment as up to 50% of their total *investable assets*.<br>The consumer is likely to seek a product with at least *medium* portfolio diversification. |
| Minor allocation (up to 25%) | The consumer may hold the investment as up to 25% of their total *investable assets*.<br>The consumer is likely to seek a product with at least *low* portfolio diversification. |
| Satellite allocation (up to 10%) | The consumer may hold the investment as up to 10% of the total *investable assets*.<br>The consumer may seek a product with *very low* portfolio diversification. |
| Investable Assets | Those assets that the investor has available for investment, excluding the residential home. |
| **Portfolio diversification (for completing the key product attribute section of consumer's intended product use)**<br>Note: exposures to cash and cash-like instruments may sit outside the diversification framework below. | |
| Very low | The product provides exposure to a single asset (for example, a commercial property) or a niche asset class (for example, minor commodities, crypto-assets or collectibles). |
| Low | The product provides exposure to a small number of holdings (for example, fewer than 25 securities) or a narrow asset class, sector or geographic market (for example, a single major commodity (e.g. gold) or equities from a single emerging market economy). |

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| Medium | The product provides exposure to a moderate number of holdings (for example, up to 50 securities) in at least one broad asset class, sector or geographic market (for example, Australian fixed income securities or global natural resources). |
| High | The product provides exposure to a large number of holdings (for example, over 50 securities) in multiple broad asset classes, sectors or geographic markets (for example, global equities). |
| Very high | The product provides exposure to a large number of holdings across a broad range of asset classes, sectors and geographic markets with limited correlation to each other. |
| **Consumer's intended investment timeframe** | |
| Minimum | The minimum suggested timeframe for holding the product. Typically, this is the rolling period over which the investment objective of the product is likely to be achieved. |
| **Consumer's Risk (ability to bear loss) and Return profile** | |
| This TMD uses the Standard Risk Measure (*SRM*) to estimate the likely number of negative annual returns for this product over a 20 year period, using the guidance and methodology outlined in the ***Standard Risk Measure Guidance Paper For Trustees*** (note the bands in the SRM guidance differ from the bands used in this TMD). However, SRM is not a complete assessment of risk and potential loss. For example, it does not detail important issues such as the potential size of a negative return (including under conditions of market stress) or that a positive return could still be less than a consumer requires to meet their investment objectives/needs. The SRM methodology may be supplemented by other risk factors. For example, some products may use leverage, derivatives or short selling; may have liquidity or withdrawal limitations; may have underlying investments with valuation risks or risks of capital loss; or otherwise may have a complex structure or increased investment risks, which should be documented together with the SRM to substantiate the product risk rating.<br><br>A consumer's desired product return profile would generally take into account the impact of fees, costs and taxes. | |
| Low | For the relevant part of the consumer's portfolio, the consumer:<br>• has a conservative or low risk appetite,<br>• seeks to minimise volatility and potential losses (e.g. has the ability to bear up to 1 negative return over a 20 year period (SRM 1 to 2)), and<br>• is comfortable with a low target return profile.<br>The consumer typically prefers stable, defensive assets (such as cash). |
| Medium | For the relevant part of the consumer's portfolio, the consumer:<br>• has a moderate or medium risk appetite,<br>• seeks low volatility and potential losses (e.g. has the ability to bear up to 4 negative returns over a 20 year period (SRM 3 to 5)), and<br>• is comfortable with a moderate target return profile.<br>The consumer typically prefers defensive assets (for example, fixed income). |
| High | For the relevant part of the consumer's portfolio, the consumer:<br>• has a high risk appetite,<br>• can accept high volatility and potential losses (e.g. has the ability to bear up to 6 negative returns over a 20 year period (SRM 5 or 6)), and<br>• seeks high returns (typically over a medium or long timeframe).<br>The consumer typically prefers growth assets (for example, shares and property). |

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| Very high | For the relevant part of the consumer's portfolio, the consumer:<br>• has a very high risk appetite,<br>• can accept very high volatility and potential losses (e.g. has the ability to bear 6 to 7 negative returns over a 20 year period (SRM 6 or 7)), and<br>• seeks to maximise returns (typically over a medium or long timeframe).<br>The consumer typically prefers high growth assets (such as high conviction portfolios, hedge funds, and alternative investments). |

### Consumer's need to access capital

This consumer attribute addresses the likely period of time between the making of a request for redemption/withdrawal (or access to investment proceeds more generally) and the receipt of proceeds from this request under ordinary circumstances. Issuers should consider both the frequency for accepting the request and the length of time to accept, process and distribute the proceeds of such a request. To the extent that the liquidity of the underlying investments or possible liquidity constraints (e.g. ability to stagger or delay redemptions) could impact this, this is to be taken into consideration in aligning the product to the consumer's need to access capital. Where a product is held on investment platforms, distributors also need to factor in the length of time platforms take to process requests for redemption for underlying investments. Where access to investment proceeds from the product is likely to occur through a secondary market, the liquidity of the market for the product should be considered.

### Consumer's other objectives

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| Timely adjustment of portfolio | The consumer seeks a product that enables a directly held portfolio to be monitored and adjusted in a timely and efficient manner by an investment adviser. |
| Management of tax position | The consumer seeks a product that enables the tax position of the consumer to be optimised or actively managed. This could for example include the selective realisation of gains and losses in a portfolio to reduce capital gains tax (CGT) liabilities, and the quarantining of the consumer's tax position from the tax position of other investors in the same product. |
| Visibility of investments in portfolio | The consumer seeks a product that provides the consumer with visibility of the investments in the portfolio. |
| Customisation of portfolio | The consumer seeks a product that provides the flexibility to add or remove investments from the portfolio. The customer or adviser may include or exclude investments (or categories of investment) for example to implement ESG filtering, for tax reasons, for changing the regularity of income, or to accommodate existing investments. |
| Transfer of existing investments into portfolio | The consumer seeks a product that permits existing investments to be in specie transferred into the product, with the retention of direct ownership. These prior investments would then be managed inside the product in accord with the management of the whole managed account. The consumer may seek this option to reduce tax, brokerage and other transaction costs. |

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| **Distributor Reporting** | |
| Significant dealings | Section 994F(6) of the Act requires distributors to notify the issuer if they become aware of a significant dealing in the product that is not consistent with the TMD. Neither the Act nor ASIC defines when a dealing is 'significant' and distributors have discretion to apply its ordinary meaning.<br>Netwealth will rely on notifications of significant dealings to monitor and review the product, TMD and its distribution strategy, and to meet its own obligation to report significant dealings to ASIC.<br>Netwealth considers that dealings outside TMD may be significant because:<br>• they represent a material proportion of the overall distribution conduct carried out by the distributor in relation to the product, or<br>• they constitute an individual transaction which has resulted in, or will or is likely to result in, significant detriment to the consumer (or class of consumer).<br>In each case, the distributor should have regard to:<br>• the nature and risk profile of the product (which may be indicated by the product's risk rating or withdrawal timeframes),<br>• the actual or potential harm to a consumer (which may be indicated by the value of the consumer's investment, their intended product use or their ability to bear loss), and<br>• the nature and extent of the inconsistency of distribution with the TMD (which may be indicated by the number of red or amber ratings attributed to the consumer).<br>Objectively, a distributor may consider a dealing (or group of dealings) outside the TMD to be significant if:<br>• it constitutes more than half of the distributor's total retail product distribution conduct in relation to the product over the reporting period.<br>• the consumer's intended product use is whole portfolio, or<br>• the consumer's intended product use is core component or higher and the consumer's risk/return profile is low. |