

# Aquasia Private Investment Fund

Information Memorandum

1 July 2021

# Important Information – All Investors

This information memorandum ('Information Memorandum' or 'IM') dated 1 July 2021 has been issued by Aquasia Pty Ltd ('Aquasia', 'Trustee' or 'Investment Manager'), AFSL 337872, ABN 20 136 522 051 as the Trustee and Investment Manager for the Aquasia Private Investment Fund ('the Fund') to offer units ('Units') in the Fund. The Fund is a managed investment scheme which is not registered with the Australian Securities and Investment Commission ('ASIC') and this IM has not been lodged with ASIC.

This IM is not required to be, and does not include all the information that would be required in, a product disclosure statement and an investor is not provided with the protections afforded to an investor in a managed investment scheme that has been registered with ASIC under the Corporations Act 2001 (Cth) (the 'Corporations Act').

The offer and/or invitation are set out entirely in this IM. Prospective investors should read this IM in its entirety prior to investing and where appropriate seek independent professional investment, taxation and legal advice before deciding to invest in the Fund. The IM should be read in conjunction with the Fund's constitution ('Constitution') a copy of which is available from Aquasia on request.

The Fund is governed by its Constitution. To the extent of any inconsistency between this IM and the Constitution, the provisions of the Constitution will prevail.

Applications for Units will only be offered to persons receiving a copy of this IM (electronic or otherwise) in Australia, or other jurisdictions where it is lawful to do so, and who qualify as 'wholesale clients' for the purposes of Section 761G of the Corporations Act ('Wholesale Clients') or applicable provisions under New Zealand law (as set out in the following sections).

To the fullest extent permitted by law neither Aquasia nor any related party, officer, director nor associate provides or accepts any representations or warranties in relation to this IM or the Fund.

The information contained in this IM has been furnished by Aquasia but no assurance is given by Aquasia or anyone else named in or associated with the issue of this IM as to the accuracy or completeness of this information.

Aquasia does not guarantee the performance of the Fund, the rate of income, the return of capital to the investors, any particular rate of return or any taxation consequences of any investment made in the Fund.

The information contained in this IM is general information only and does not take into account an investor's objectives, financial situation or needs. Before acting on the information contained in this IM, investors should consider the appropriateness of the information in this IM having regard to their objectives, financial situation and needs.

If information in this IM changes, and it is not a material change, we may update the information by posting the updated information on our website [www.aquasia.com.au](http://www.aquasia.com.au). or an investor can also obtain this information by calling Aquasia on +61 2 8061 4888.

All references A\$ are to Australian Dollars and NZ\$ are to New Zealand Dollars. Capitalised terms in this IM are defined terms and they are listed in the Glossary or defined elsewhere in the IM. Days are calendar days unless otherwise specified as Business Days and 'month' and 'quarter' are calendar month and calendar quarter respectively unless stated otherwise.

# Important Information for New Zealand Investors

**WARNING** (please read the following important information): The offer of units in the Aquasia Private Investment Fund ('the Fund') is not being, and will not be, offered or sold in New Zealand to persons other than 'wholesale investors' within the meaning of:

- clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA Schedule 1') which covers 'investment businesses', persons meeting the 'investment activity criteria', 'large' persons and 'government agencies' as defined in each case in FMCA Schedule 1 ('Institutional Wholesale Investor');
- clauses 3(3)(a) and 41 of the FMCA Schedule 1 which covers 'eligible investors' ('Eligible Investor'); and
- clause 3(3)(b)(i) or (ii) of FMCA Schedule 1 which covers investors meeting the NZ\$750,000 minimum investment amount criteria ('Minimum Investment Exclusion').

The information referred to on the pages that follow is restricted in New Zealand to persons in these 'wholesale investors' categories.

Applications or any requests for information from persons in New Zealand who do not meet the above criteria will not be accepted.

If you are a New Zealand investor, and apply for Units in the Fund, you warrant that you meet the above eligibility criteria and agree that you will not sell your interest in the Fund to any person who is not a 'wholesale investor' or to any person within 12 months after they are issued, in circumstances where disclosure would be required under Part 3 of the Financial Markets Conduct Act 2013 or in circumstances which may result in Aquasia or any of its directors or related bodies corporate incurring any liability whatsoever.

If you are an Institutional Wholesale Investor or Eligible Investor, you agree to provide a certificate to the issuer of the Fund in the form attached as Appendix 1A to the Application Form prior to investing in the Fund.

If you are an Eligible Investor you agree to provide a certificate to the issuer of the Fund (which includes details of your experience with financial products) in the form attached as Appendix 1B to the Application Form and arrange for confirmation of the certificate by a lawyer, qualified statutory accountant or authorised financial advisor prior to investing in the Fund.

If you are investing in the Fund in reliance on the Eligible Investor Exclusion, the following warning statement is important in relation to your investment in the Fund:

## WARNING

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because there is an exclusion for offers where the amount invested upfront by the investor (plus any other investments the investor has already made in the financial products) is NZ\$750,000 or more. As a result of this exclusion, you may not receive a complete and balanced set of information. You will also have fewer other legal protections for these investments.

Investments of this kind are not suitable for retail investors.

Ask questions, read all documents carefully, and seek independent financial advice.

## Offence

It is an offence to give a certificate knowing that it is false or misleading in a material particular. The offence has a penalty or a fine not exceeding NZ\$50,000.

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1 July 2021

Dear Investor

It is my great pleasure to invite you to become a Unitholder in the Aquasia Private Investment Fund (**Fund**), an unregistered managed investment scheme which was launched in April 2018.

Aquasia Pty Ltd (**Aquasia**) sees good investment opportunities in today's loan and fixed-income markets as a consequence of the regulatory environment confronting the banking sector. We have seen our local banks scale back lending in particular sectors. This provides the Fund with opportunities to enhance returns through the acquisition or refinancing of assets from financial institutions or sellers disposing of quality financial assets or portfolios for strategic reasons or due to the need to restructure their assets to satisfy prudential requirements.

The Fund invests in a variety of asset types, including the private market debt, senior and mezzanine loans, convertible notes and fixed income instruments. The Fund targets a return in excess of 10% p.a. and suits investors who are looking for higher yield income distributions over the medium term of 3-5 years. The Fund is for Wholesale Clients only and is most suited to investors who have an investment horizon of three to five years.

Aquasia acts as the Trustee and Investment Manager for the Fund. The Aquasia team has extensive experience in the credit, fixed-income and property markets which gives it a strong understanding of market dynamics and the changes taking place in the regulatory environment. Further, Aquasia's wide network of contacts within the financial community means it is able to identify suitable loan assets and fixed-income opportunities for the Fund.

As Aquasia's Principal Partners and Directors, Angus James and I are investors in this Fund, aligning Aquasia's interests with those of other investors.

I urge prospective investors in the Fund to read this Information Memorandum carefully before investing. Particular attention should be paid to page 11 of this Information Memorandum which outlines the risks associated with investing in the Fund.

I look forward to welcoming you as a Unitholder in the Aquasia Private Investment Fund.

Yours sincerely

A handwritten signature in black ink, appearing to read "Col. McKeith".

Colin McKeith  
Principal Partner/Director  
Aquasia Pty Ltd

# Summary of the Fund

<b>The Investment</b>	Units in Aquasia Private Investment Fund, an open-ended unit trust.
<b>Investor Class</b>	Wholesale Clients only.
<b>Minimum Initial Investment</b>	A\$100,000. Full details on page 13.
<b>Target Return</b>	10% p.a. (net of fees)
<b>Investment Objective</b>	To preserve capital and achieve returns over the medium term in excess of the Target Return.
<b>Investment Strategy</b>	As a consequence of regulatory reform confronting the banking sector, Aquasia is observing a number of private debt and other opportunities through which to participate in the financing of business activities in Australia and potentially, internationally.
<b>Types of Investments</b>	<p>The investments in the Fund will include:</p> <ul style="list-style-type: none"> <li>• Private market debt lending</li> <li>• Real estate lending</li> <li>• Opportunistic credit</li> <li>• Convertible notes</li> </ul> <p>More details are provided on page 9.</p>
<b>Investment Horizon</b>	3 to 5 years.
<b>Trustee and Investment Manager</b>	Aquasia Pty Ltd ABN 20 136 522 051 AFSL 337 872
<b>Custodian</b>	Aquasia Pty Ltd ABN 20 136 522 051 AFSL 337 872
<b>Distributions</b>	Distributions are paid quarterly to the extent income is available. Distributions may be made at other times at the Trustee's discretion.
<b>Applications</b>	Applications of a minimum of A\$100,000, must be received by 3.00pm Sydney time at least two Business Days prior to the last Business Day of each month. Full details on page 13.
<b>Redemptions</b>	<p>Redemptions will not be possible before 30 September 2019. Thereafter, redemptions may be permitted on the last Business Day of each quarter or at other times at the discretion of Aquasia.</p> <p>Full details on page 14.</p>
<b>Management Fee</b>	1% p.a. (excl GST) of the Net Asset Value of the Fund. Full details on page 15.
<b>Expense Recovery</b>	Capped at 0.35% p.a. (excl GST) of the Net Asset Value of the Fund.
<b>Buy / Sell Spread</b>	0.20% Buy Spread / 0.20% Sell Spread. Full details on page 15.
<b>Performance Fee</b>	20% of the Fund's outperformance of the Target Return of 10% p.a. Full details on page 16.

# Overview of Aquasia, the Fund Team and the Fund Investment Committee

## Aquasia Pty Ltd

Aquasia is an independent, licensed, financial services business. Aquasia's senior staff have a deep understanding of debt and equity markets, treasury and other financial risk and derivative products and a wide network of contacts within banks, institutional investors and corporates.

The Aquasia team has expertise in the establishment and management of wholesale funds and syndicates investing in a range of credit and fixed-income assets.

Further information on Aquasia can be found at [www.aquasia.com.au](http://www.aquasia.com.au).

## The Aquasia Private Investment Fund Team

The key Aquasia personnel who will be involved with the Fund are:

### Colin McKeith – Principal Partner/ Director, Aquasia and Portfolio Manager to the Fund

Colin is a Principal Partner of Aquasia and is responsible for Aquasia's debt, derivatives markets and funds management businesses. He has been involved in the Australian financial markets since 1980. Colin has developed his career alongside the opening up and deregulation of the banking system. He has experience across a wide range of disciplines from product development through to trading and distribution roles.

Prior to Aquasia, Colin was Head of Global Markets at ABN AMRO Australia and New Zealand and was responsible for the debt, equity and balance sheet activities of the bank including the structured finance and specialised asset management areas. He was also the Chairman of the investments committee that approved all equity principal investments for the bank, including its investments in Australian infrastructure. He was also a Board Member of ABN AMRO Australia Holdings, the local banking branch of ABN AMRO Australia, and a member of its management team for 11 years.

Prior to joining ABN AMRO Australia, Colin spent 14 years at Citibank in Sydney and London. During Colin's time at Citibank he was in charge of the fixed-income activities in Australia, with his last role being the Head of Capital Markets overseeing all of the capital markets and loan activities for the bank in Australia.

Colin is also a past Non-Executive Director of Wizard Mortgage Corporation and Southern Cross Station (Spencer Street Station).

### James McNabb – Senior Adviser to the Fund

James has over 25 years' experience in the financial markets as a trader and structurer of fixed-income products and has worked in Australia, London, New York and Singapore. At Aquasia, James is responsible for managing Aquasia's credit funds.

James previously worked at ABN AMRO Australia, most recently as an Executive Director of the firm's infrastructure team in Sydney. Before that he was the Global Head of credit derivative trading and Global Head of Structuring for interest rates and credit for ABN AMRO Bank NV in London.

Prior to joining ABN AMRO Bank NV, James was a senior trader of credit and interest rate derivatives for UBS AG in Singapore where he was Co-Head of structured credit trading for Asia. Before this he was Head of Swiss Banking Corporation's USD interest rate exotics trading in New York.

James has managed Aquasia's credit funds since September 2010.

James has a Bachelor of Science (Physics) from Melbourne University and an MBA in finance from Columbia University. He is a graduate of the Australian Institute of Company Directors.

### **Nick Thomson – Senior Adviser**

Nick has over a decade of banking experience in financial advisory, equity capital markets, restructuring and mergers and acquisitions.

Prior to joining Aquasia in 2015, Nick was most recently Head of Investment Banking for CIMB Australia, with responsibility for origination of advisory assignments and management of a team of investment banking professionals.

Nick has also worked at UBS AG Australia and JP Morgan Australia and has undertaken a number of significant Real Estate transactions and financial restructuring assignments. Nick has a Master of Economics from Sydney University and is a graduate of the INSEAD Management Program.

### **Kelly Fraser – Risk Management, Compliance and Administration for the Fund**

Kelly is Aquasia's Chief Operating Officer and has over 20 years experience across a broad range of operational roles in financial markets.

Prior to Aquasia, Kelly's most recent position was Chief Operating Officer of Global Markets for ABN AMRO Australia.

Before this, she worked in ABN AMRO Bank NV's London office for four years with the latter half of her time there spent as Business Manager for the global G11 rates trading business.

Previously, Kelly spent nine years as a market risk specialist, working at ABN AMRO Australia in Sydney and London, and Bankers Trust in Sydney, in varying capacities. Kelly held risk manager positions for the equities, fixed-income, derivative, treasury/FX and proprietary trading activities at these banks.

Kelly has a Bachelor of Economics from Sydney University.

### **Stuart Richardson – Distribution and Asset Origination**

Stuart has over 25 years' experience in the financial services industry covering banking, asset management and wealth management. Before joining Aquasia, Stuart was a Director at Credit Suisse AG in Sydney covering superannuation funds, asset managers and family offices with a focus on alternative investments.

Before moving to Sydney, Stuart worked in New Zealand for First NZ Capital Securities Limited where he managed investment portfolios for family offices and high net worth individuals. Prior to this he was Head of Corporate and Institutional Sales at ABN AMRO. During Stuart's career he was also Head of Sales in the Financial Markets division of The National Bank of New Zealand.

Stuart holds a Bachelor of Commerce degree in Economics from the University of Auckland and an New Zealand Stock Exchange Diploma.



## Aquasia Private Investment Fund Investment Committee

The Fund's investment committee ('Investment Committee') oversees the activities of the Fund from an investment, operational and compliance perspective. Its Charter requires it to establish and oversee the Fund's investment strategy to protect capital while delivering above benchmark returns. The Investment Committee meets monthly to monitor and review all aspects of the Fund's investments and operations.

The Investment Committee currently comprises the key Aquasia personnel listed above and the following two independent committee members.

### Neil Schafer – Lead Independent Investment Committee Member

Neil has an extensive track record in banking and investment gained from over 25 years' experience in New York, London, Switzerland, Asia and Australia.

He has served as CEO at Wilson HTM Investment Group and Souls Funds Management, as an executive at Citibank, CBA and UBS, and as an external director of The Investor Group, Valad Core Plus Property Management Ltd and the ABN AMRO Social Infrastructure Fund.

Neil currently provides business and investment advisory services through SPG Asia, and is a director of Clime Investment Management, Catholic Development Fund and Monte St Angelo Mercy College.

### Mark Hopkinson – Independent Investment Committee Member

Mark Hopkinson has been involved in the Australian and international financial markets for over 35 years. Mark has had a relationship with Aquasia since 2011 and has been the independent Investment Committee Member on the Aquasia Enhanced Credit Fund since its inception in 2011. Between 2007 and 2013 he was a Non-Executive Director of Schroders Asian Property Managers Limited ('SAPML'), the General Partner of the Schroders Asian Property Fund, a US\$300 million plus fund investing in Asian real estate. SAPML managed the investments and governance of the Schroders Asian Property Fund.

The fund has closed and has now returned cash to investors, having reached the end of its planned investment life.

Prior to his role with SAPML, Mark worked for 20 years in the Schroder Group in London, Sydney and Asia, concluding with the role of Group Managing Director, Investment Banking in Asia between 1997 and 2000.

Mark's responsibilities at the Schroder Group were principally for trading, structuring and risk management. He took a prominent role in the development of the swap and structured investment markets in the 1980's. He was responsible for the management of trading in futures, synthetic instruments and cash bonds in the 1990's. In the late 1990's, as Group Managing Director of Financial Markets in the Asian region, Mark prepared for and managed the impact of the Asian financial crisis on Schroder's credit and liquidity exposures.

Mark has an MA (Hons) in English and a Master of Studies in History from Oxford University.

# Investment Approach

## Objective

The Fund's investment objective is to preserve capital while producing returns over the medium term in excess of the Target Return of 10% p.a.

## Strategy

As a consequence of regulatory reform confronting the banking sector, Aquasia is observing a number of opportunities to participate in the private debt financing of business activities in Australia and potentially, internationally.

The Fund will invest in various specialty lending products and private market debt by way of senior and mezzanine loans, convertible notes and fixed income instruments.

The Fund is designed for investors who wish to have exposure to such assets and who are looking for returns above 10%p.a. with some limited potential for capital gains. Given the expected illiquidity of the Fund's assets, the Fund is most suited for investors who have an investment horizon of three to five years.

Investments are sourced from Aquasia's wide network of contacts and will be added to the Fund's portfolio if, in Aquasia's view, they provide the appropriate risk/return profile for the Fund. Aquasia can access attractively-priced assets from various sources, including banks disposing of businesses, loan books or assets for strategic reasons, banks and other investors selling assets for the purposes of managing capital as prudential rules change, receivers selling portfolios of financial assets and Aquasia's own origination function. The Fund may invest in other funds and investment opportunities offered by Aquasia. If assets are sourced through Aquasia's advisory or origination businesses or are investments managed by Aquasia, the transactions will occur on an arm's-length basis and in accordance with Aquasia's conflicts of interest policy.

Aquasia intends that the Fund will invest in assets that are unrated by investment rating agencies and that the Fund's portfolio will have the characteristics summarised in the following table.

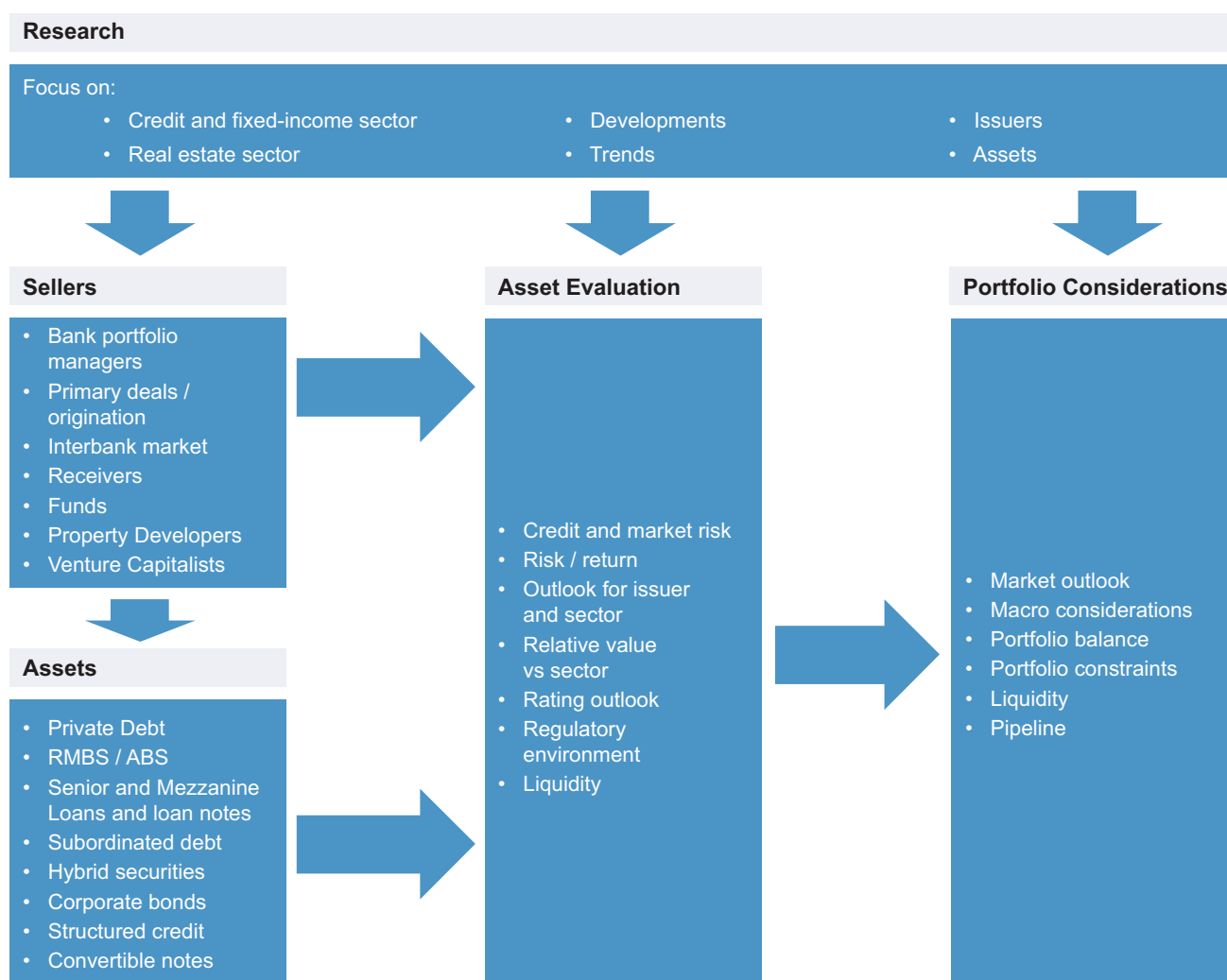
For more information of the Fund's intended portfolio characteristics please see page 9.

While the Fund generally buys assets on a hold-to-maturity basis, the Investment Manager monitors the positions in the portfolio with a view to optimising unitholder returns. The Investment Manager may sell assets prior to maturity where it believes that there are better investment opportunities available in the market or a holding in the portfolio is fully priced.

Characteristic	Fund Portfolio Constraints
<b>Geographical</b>	Focus on Australian opportunities with the ability to consider suitable international assets.
<b>Credit rating</b>	It is expected that up to 100% of the investments be in unrated assets. The Fund may hold short term investments in cash and rated paper.
<b>Currency</b>	>80% A\$ (or hedged back to A\$) assets.
<b>Interest rate</b>	Fixed and floating rate assets.
<b>Leverage</b>	Up to 20% borrowing if required.
<b>Liquidity</b>	Generally investments will be illiquid assets.
<b>Asset and Issuer Concentration</b>	The Fund will ultimately aim for exposure to a range of assets and issuers to minimise concentration of the portfolio. However, in its establishment phase, the Fund is likely to be concentrated on a small number of seed investments.
<b>Sector concentration</b>	The Fund will seek to invest across a range of assets and industry sectors. However during its establishment phase, the Fund is likely to be concentrated in loans to the real estate sector as these will be its seed investments.
<b>Listed/unlisted</b>	Majority of assets will be unlisted.

## Investment Process

The Fund's investment process is summarised below:



## Research

Aquasia researches financial markets to identify developments and trends in general, and in the credit and fixed-income and property sectors in particular. Aquasia also undertakes detailed research on suitable assets and their issuer(s). Aquasia's research informs and shapes the seller/asset identification, evaluation and portfolio consideration phases of the Fund's investment process.

## Identifying Seller/Assets

Aquasia sources assets through its networks and specialist partners, with a particular view to finding motivated sellers of undervalued assets or borrowers with funding requirements against assets that Aquasia believes are providing a good return against the risk.

As part of this process Aquasia uses its deep knowledge of the markets and extensive contacts, together with an understanding of longer-term market dynamics and changes in the regulatory environment.

## Evaluating Assets

Aquasia evaluates assets by examining the underlying credit quality, risk/return profile and the name, sector, liquidity, rating and regulatory outlook of each asset.

## Portfolio Considerations

Aquasia examines assets in view of the broader portfolio, including overall macro considerations and outlook, the portfolio mix, hedging, liquidity rating, and interest rates.

## Review Process – Investment Committee and Audit

The Investment Committee meets monthly in order to:

- Review the Fund's performance.
- Ensure that the Fund is operating within its constraints (see page 7).
- Review and approve the month end valuations.

The Investment Committee will be comprised of Aquasia personnel and at least one independent committee member. At the date of this IM, the Investment Committee comprises Colin McKeith, Nick Thomson, Kelly Fraser, James McNabb and Stuart Richardson (Aquasia) and Neil Schafer and Mark Hopkinson (Independents).

In addition, at the end of each financial year, the valuation of the Fund's assets is reviewed by the Fund's auditor.

## Portfolio Assets

Examples of assets the Fund may hold include:

- Private market debt lending and specialised lending products (including receivables and asset financing).
- Loans to Real Estate transactions.
- Convertible Notes.
- Senior and mezzanine tranches of Residential Mortgage-Backed Securities (**RMBS**).
- Senior and mezzanine tranches of other asset-backed securities (**ABS**).
- Subordinated Debt of banks and other financial institutions.
- Structured credit (e.g. credit-linked notes, zero coupon bonds).
- Senior and subordinated corporate bonds and loans.
- Listed and unlisted Hybrid Securities.
- Cash and government bonds.

## Portfolio Characteristics

The Fund's portfolio will have the characteristics set out below.

### Credit Rating

The Fund's assets may be rated or unrated. The Fund expects that up to 100% of its investments will be in unrated assets.

### Currency

The Fund invests predominantly in Australian Dollar denominated assets. However, the Fund may from time to time invest in assets denominated in currencies other than Australian Dollars.

### Currency Hedging Strategy

If the combined value of Other Foreign Currencies assets exceeds 20% of the value of the assets of the Fund then Aquasia will hedge the Other Foreign Currencies exposure in excess of this 20% back to Australian Dollars.

Instruments used for currency hedging may include forwards, futures and options.

## Interest Rate

The Fund is targeting a net return to investors above the Target Return of 10% p.a. This may involve purchasing assets with fixed or floating interest rates and, in some cases, the Fund may invest in zero coupon assets.

Aquasia may engage in interest rate hedging where it is considered necessary to achieve the Target Return. Instruments used for interest rate hedging may include swaps, options and futures.

## Leverage

While the Fund is not expected to be an active user of leverage, it has the ability to borrow up to 20% of the value of the assets of the Fund from time to time to meet short-term liquidity needs. This may be done through direct borrowings or repurchase agreements.

## Liquidity

The Fund invests in mainly illiquid assets. The Fund will only invest where the Investment Manager believes there is an adequate return for the risk and the illiquidity of the assets. Assets will be acquired on a hold-to-expected-maturity basis.

## Asset and Issuer and Sector Concentration

The Fund intends to invest across a range of sectors and asset types.

However, it is expected that the Fund will be more concentrated during its establishment phase while it builds up its portfolio of assets and will be seeded with loans to the real estate sector.

## Listed/Unlisted

The Fund's assets may be listed or unlisted. It is anticipated that the majority of the Fund's assets will be unlisted.

# Risks

It is important to understand the risks associated with investing in the Fund. The nature of investment markets is such that the return on investment markets, as well as individual investments, can vary significantly and future returns are unpredictable. In the event that any of the risks described on the following pages eventuate then they may impact upon the value of the Fund's assets and hence Unit prices and the extent to which the Fund is able to make distributions and permit redemptions. Different types of investments perform differently at different times and have different risk characteristics and volatility.

The risks and therefore return on the Fund's investments are influenced by various factors, including many outside the control of Aquasia, such as domestic and international markets, economic conditions, regulatory changes, political climates, interest rates, currencies and inflation. The significant risks that may affect the performance or value of an investor's investment include those set out below. The higher the concentration of the Fund to these risk factors, the greater the impact on the Fund value if a particular risk event were to occur.

Investors should consider their investment objectives, timeframe and risk tolerance before investing in the Fund. Aquasia recommends that investors obtain appropriate professional investment, taxation and legal advice having regard to their individual circumstances prior to investing in the Fund.

## Liquidity Risk

A majority proportion of the Fund's assets will be invested in assets which are illiquid, and even those assets which are liquid in normal markets may become illiquid under market conditions which are adverse. The liquidity of an asset may also affect its value, especially in a situation where the Fund is forced to sell assets at a time when it is not advantageous to do so.

The illiquid nature of the portfolio is likely to affect the ability of unitholders to make redemptions from the Fund.

## Market Risk

The market value of the Fund's assets could decrease. The market risk in relation to the assets that the Fund invests in is broadly affected by factors including, but not limited to, interest rate movements, property values, changes in ratings, political policies, legislation, technology, infrastructure, investor sentiment, employment levels, currencies, broader economic conditions and changes in the perceived or actual creditworthiness of the borrower or any underlying security.

## Credit Risk

Credit Risk is the risk that the counterparty is unable to repay its financial obligations when due. While Aquasia will exercise due diligence, skill and expertise in selecting investments, there may still be credit losses in the Fund's portfolio. Aquasia actively monitors the portfolio and, where possible, will attempt to trade out of positions which appear to be deteriorating, but this is difficult with inherently illiquid assets. Assets in the Fund may need to go through a "work out" process to recover outstanding amounts which would delay the repayment of those investments and potentially result in a loss of capital.

## Industry Sector Risks

The Fund will invest in various industry sectors which have their own specific characteristics and are exposed to the risks described in this section to varying degrees.

It is expected that during the establishment phase, the Fund will be seeded with loans to the real estate sector. The types of risks in this sector may include planning/regulatory changes, project delays, pre-sales levels, construction risks, environmental/ geotechnical issues, tax treatment and changes in land values.

## Counterparty Risk

There is a risk that the Fund's counterparties may become insolvent or are otherwise not able to meet their obligations to the Fund. There is also a risk that parties involved in transaction structures fail to meet their contractual obligations, potentially leading to operational losses.

## Interest Rate Risk

The Fund is aiming for a Target Return to investors above 10% p.a. This may involve purchasing assets which are both fixed or floating rate and in some cases zero coupons (where interest will not be received until the maturity of the assets). The Fund may hedge some of the assets in the Fund from time to time if it determines that by doing so it will achieve the Target Return.

However, there can be no assurance that Aquasia will be able to hedge all such assets and there may be residual interest rate risk arising from imperfect hedging and general market conditions associated with changes in interest rates.

## Derivatives Risk

Derivatives instruments may be used to manage interest rate or currency risk. The value of a derivative may fail to move in line with the value of the underlying asset or rate. As a consequence, the derivative may not perfectly hedge the underlying risk. Further risks include the potential illiquidity of the derivative and exposure to the credit-worthiness of the derivative counterparty. The Fund may also have to hold sufficient cash or cash-equivalent assets to meet any potential losses from a derivative instrument.

## Leverage Risk

The Fund has the ability to borrow up to 20% of the value of its assets for the purpose of managing short-term liquidity. In addition, some of the Fund's assets may be internally leveraged via embedded credit derivatives or subordination. The leverage risk of the Fund's borrowing and in relation to assets the Fund may invest in are the same as those factors identified in the 'Market Risk' sub-section above.

## Personnel Risk

Personnel risk is the risk that key people who are significant to the management of the Fund become unable or unavailable to perform their role. The Aquasia Private Investment Fund Team may change, which may affect the Fund's future performance.

## Currency Risk

While most of the Fund's assets are expected to be Australian Dollar denominated, the Fund may from time to time buy assets in other currencies. Aquasia aims to hedge currency risk as set out in the 'Currency Hedging Strategy' sub section on Page 9 of this IM.

However, there can be no assurance that Aquasia will be able to do so and there may be residual currency risk arising from imperfect hedging and general market conditions associated with changes in currency values.

## Fund Risk

There are certain inherent risks in any collective investment such as a managed fund. Investing in the Fund may result in a different outcome to investing directly because of the application of tax laws, income or capital gains accrued in the Fund, fees and expenses, the impact of investments into and redemptions from the Fund by other investors and the possibility that the Fund may be terminated. Further, the costs associated with an investor's investment may increase through an increase in fees and expenses.

## Tax Risk

The tax treatment and tax risk of an investment in the Fund is discussed in the 'Taxation' sections on pages 22 to 27 of this IM. Tax laws are subject to continuous change, which can operate retroactively.



# Investing in the Fund

## Minimum Investment

The minimum initial investment in the Fund (and the minimum holding) is A\$100,000 and the minimum for further investments is A\$50,000. Aquasia may, in its absolute discretion, reduce the minimum initial investment, the minimum holding or the minimum amount for further investments in the Fund.

## Wholesale Clients Only

Australian Investors wishing to invest with amounts of less than A\$500,000 (or NZ\$750,000 for New Zealand Investors) must demonstrate, to the satisfaction of Aquasia, that they are Wholesale Clients (or a wholesale investor for New Zealand Investors). The qualification requirements for an Australian Wholesale Client are outlined in Section 761G of the Corporations Act and set out on the Application Form.

The requirements for a New Zealand Wholesale client are set out in Schedule 1 of the Financial Markets Conduct Act NZ 2013 and the Application Form.

## Applying

All applications for Units must be made using the original application form accompanying this IM (**Application Form**). Additional copies of the IM are available from Aquasia. Applications received by facsimile will not be accepted without prior agreement by Aquasia.

To make an application, investors must send a completed Application Form and supporting documentation together with cleared application monies to Aquasia by 3:00pm Sydney time at least two Business Days prior to the last Business Day of each month or such other times and dates as Aquasia may determine in its discretion.

All applications by new investors must provide supporting identification documents as part of the requirements of the Anti-Money Laundering and Counter Terrorism Financing regime ('AML/CTF Law'). These identification and verification requirements are outlined in the AML/CTF Law verification checklists which are set out on the Application Form.

Applications will only be accepted if Aquasia is satisfied with all details disclosed in the Application Form and associated client identification and verification requirements and Wholesale Client checks have been satisfied.

Aquasia may refuse to accept any application (in whole or part) in its absolute discretion.

## Issue Price

The price at which Units are issued to investors is calculated on a per Unit basis (the 'Issue Price'). The Issue Price is calculated by determining the Net Asset Value of the Fund as at the close of market on the last Business Day of each month (or such other times as Aquasia may determine in its discretion), dividing this amount by the number of Units on issue as at that time and date, plus Buy Spread (currently 0.20% of the Net Asset Value per Unit).

## Valuation

The Net Asset Value of the Fund is calculated in accordance with the Constitution at the close of the market on the last Business Day of each month, or such other times and dates as Aquasia may determine in its discretion. The Net Asset Value per Unit is calculated by dividing the Net Asset Value of the Fund by the number of Units on issue as at the close of market on the relevant calculation date, or such other times and dates as Aquasia may determine in its discretion.

The Net Asset Value of the Fund is calculated as the value of the assets in the Fund less the value of any liabilities.

The Fund is likely to invest in a diverse range of assets for which differing valuation methodologies will be employed based on relevant market practice. Many investments will be valued "at par". However, Aquasia will seek external valuations where needed. Where appropriate, assets will be valued at market value determined by Aquasia with reference to independent pricing sources where possible. Assets whose values are not directly quoted are valued by reference to comparable assets and similar transactions in the market. If Aquasia considers that the value determined by reference to independent pricing sources is not reflective of where an asset could be sold on the market, the asset will be valued at Aquasia's assessment of its value, which may include use of model-based pricing.



Valuations are reviewed monthly by the Investment Committee (or more frequently as required) and on an annual basis by the Fund's auditors.

## Distributions

Distributions may comprise income and/or capital. Investors will receive any distributions in respect of their Units, based on their proportionate holding of Units at the end of each distribution period, to the extent income is available.

Distributions will generally be made at the end of each calendar quarter or at such other times as Aquasia may determine in its absolute discretion. Where a distribution is payable, it will ordinarily be paid within 30 days after the end of the relevant distribution period.

Investors may elect to have their distributions paid in cash or, subject to the discretion of Aquasia, reinvested in Units.

## Redemptions of Units

Redemptions will not be permitted prior to 30 September 2019 (based upon any redemption requests received prior to 30 August 2019) after which redemption of Units may be possible on a quarterly basis or more regularly, at Aquasia's discretion. However, due to the generally illiquid nature of the Fund's portfolio, Aquasia may refuse or scale back redemptions at its discretion. Redemptions will only be possible if the Fund has sufficient liquidity to meet redemption requests at the relevant time, or Aquasia is able to liquidate investments in circumstances where the position of the remaining Fund investors will not be disadvantaged.

Partial redemptions may be made on a pro-rata basis. The unsatisfied amount of any redemption requests will not be carried over to the next quarter. Unmet redemption requests will be cancelled and Investors would need to submit a further redemption request for any unmet redemption request in the following quarter.

Where redemptions are possible, Units will be redeemed on the last Business Day of each calendar quarter or such other times and dates as Aquasia may determine in its discretion ('Redemption Date') commencing on 30 September 2019. Redemption requests must generally be received 30 days before the relevant Redemption Date. Payment of redemption proceeds will generally be made within 30 days of the Redemption Date but if Aquasia considers it to be appropriate it may delay payment for up to 60 days.

Redemptions will be paid in accordance with the Fund's Constitution and the redemption proceeds will be based on the Net Asset Value of the Fund as at the close of market on the Redemption Date following the acceptance of the redemption request, divided by the number of Units on issue as at that time and date, minus Sell Spread (currently 0.20% of the Net Asset Value per Unit).

Redemption proceeds may consist of an amount representing the capital value of the Units plus an amount representing distributable income.

If the Trustee reasonably determines that, in connection with accepting a redemption request, it must obtain an external valuation of one or more assets, the Trustee may deduct the cost of that valuation from the redemption proceeds payable to the redeeming Unitholder.

## Reporting

Investors in the Fund will receive regular reports, including:

- Confirmation of their initial investment, subsequent investments and redemptions.
- Distribution statements
- Annual tax statements providing details of their share of the Fund's net income and identifying the taxation components of their distributions as required to complete Australian taxation returns.
- Investor updates

Unitholders and potential investors may obtain copies of audited financial statements and/or details of the underlying investments or current Unit prices for the Fund by contacting Aquasia.

# Fees and Expenses

## Management Fee

Aquasia as Trustee and Investment Manager charges a management fee for overseeing the operations of the Fund and providing access to the Fund's underlying investments ('**Management Fee**').

The Management Fee is 1% p.a. (excl GST), accrued and calculated monthly and at other times if considered appropriate by Aquasia, based on the Net Asset Value of the Fund before the recovery of expenses and is payable within 10 Business Days of the end of each calendar quarter. The Management Fee is payable out of the assets of the Fund. Aquasia may at its discretion pay from its Management Fee a rebate of part of the fee to certain Unitholders.

## Fund Expenses & Transaction Costs

Aquasia is entitled to be reimbursed for administering the Fund and for out-of-pocket expenses it incurs (or reasonably anticipates it will incur) in managing and administering the Fund (together '**Fund Expenses**'). Fund Expenses include third party fees for audit, legal, fund accounting, unit registry, communication expenses with respect to investor services (e.g. printing and postage and preparation of tax returns) and the amortisation of fund establishment costs, including the legal costs of producing this IM and the Fund's Constitution.

Aquasia's reimbursement for Fund Expenses ('**Expense Recovery**') is currently capped at 0.35% p.a. (excl GST) of the value of the assets in the Fund. Expense Recovery is payable out of the assets of the Fund. However, Aquasia has the right to vary or remove the cap on Expense Recovery but will give Unitholders 30 days' notice of such change.

## Abnormal Expenses

Aquasia may recover from the assets of the Fund abnormal expenses such as costs of Unitholder meetings, changes to the Constitution, defending or pursuing legal proceedings and other costs to the Fund which are not included in Fund Expenses (**Abnormal Expenses**) and are therefore not subject to the Expense Recovery cap. Abnormal Expenses are not generally incurred during the day-to-day operation of the Fund and are not necessarily incurred in any given year.

The Fund Expenses outlined above do not include any Abnormal Expenses. Aquasia may, in its sole discretion, decide to recover these Abnormal Expenses from the Fund.

## Transaction Costs and Buy/Sell Spread

Transaction Costs are incurred when assets are bought or sold and when investors join or leave the Fund as the Fund is required to purchase or sell assets to satisfy application or redemption requests. In order to ensure that other Fund investors are not adversely affected, investors must pay a spread charge on joining or leaving the Fund. An applicant for Units must pay a buy spread charge (**Buy Spread**) and a Unitholder redeeming Units must pay a sell spread charge (**Sell Spread**).

The Buy Spread is currently 0.20% of the Net Asset Value per Unit and is incorporated into the Issue Price of a Unit. The Sell Spread is currently 0.20% of the Net Asset Value per Unit and is deducted from the redemption proceeds of a Unit.

The Buy Spread paid on acquisition of Units and Sell Spread in respect of redemption of Units is not subject to GST. The Buy Spread and Sell Spread amounts are not paid to Aquasia. The amounts are retained as part of the assets of the Fund to protect ongoing investors from the Transaction Costs on transaction activity driven by applications and redemptions.

The size of the Buy Spread and Sell Spread may, subject to law, be varied from time to time without notice, to ensure that non-transacting investors are not adversely impacted by applications for Units or redemptions of Units by other investors. For example, a different percentage may apply when Transaction Costs such as brokerage costs or the difference between the bid and offer prices for assets change. In stressed and dislocated market conditions, Transaction Costs may increase significantly.

In addition, Aquasia may at its discretion reduce the Buy Spread and Sell Spread in certain situations if it considers that the actual Transaction Costs incurred will be less than 0.20%.

Examples of such situations include where there is a simultaneous purchase and redemption of Units of equivalent value by different investors, or in the event of in-specie applications or redemptions.

Reinvested distributions will not incur a Buy Spread.

There are also Transaction Costs associated with the buying and selling of assets for the Fund for the purposes of complying with the investment strategy rather than in response to application or redemption requests. These Transaction Costs include brokerage, clearing costs, due diligence and legal fees, buy/sell spreads in underlying investments, government taxes, duties and levies incurred when acquiring or disposing of part or all of the Fund's underlying investments. These Transaction Costs are incurred and paid out from Fund assets and are uncapped.

## Performance Fee

Aquasia will be entitled to a performance fee out of the Fund's assets of 20% (excl GST) of Performance. The Performance Fee will be calculated monthly and at other times if considered appropriate by Aquasia and is paid at the end of each Calendar Quarter.

The Performance Fee rate is applied to the amount of the Performance and multiplied by the number of units on issue on the Business Day after the Starting Date.

If the Performance in a given Performance Period is negative then no performance fee is payable in respect of that period and no further performance fee is payable until the accumulated negative Performance has been offset by subsequent positive Performance amounts.

Any Performance Fee payable to Aquasia will be paid out of the assets of the Fund and will not be a liability of an individual Unitholder.

**'High Water Mark'** means the Net Asset Value per Unit at the Starting Date.

**'Hurdle'** means the High Water Mark increased by a rate equivalent to 10% annualised over the Performance Period.

**'Net Asset Value per Unit'** means the Net Asset Value of the Fund divided by the total number of Units on issue.

**'Performance'** means:

- (a) the Net Asset Value per Unit at the end of a Performance Period, calculated after:
  - (i) adding back the value of any Distribution Amounts in respect of a Unit paid or payable during that period and assuming those amounts had been re-invested in the Fund; and
  - (ii) deducting management fees and expenses,

but before deduction of the performance fee; minus

- (b) the Hurdle.

**'Performance Period'** means the period from the applicable Starting Date to the last day of the month or other day determined by Aquasia for which the performance fee is being calculated.

**'Starting Date'** means, initially, the date of first issue of Units in the Fund and, thereafter, the last day of the last Performance Period for which a performance fee was payable.

If, for example, Performance is positive in the first month of a quarter then a performance fee is calculated and accrued, and reduces the NAV at the end of that month. Performance at the end of the second month is then measured and if it is higher than the first month's performance then the accrual is increased by the amount of the difference. If performance in the second month is negative then the accrual is reduced, and may go to zero if the magnitude of the second month's underperformance is less than the first month's. At the end of the third month the overall performance for the quarter is calculated and, if positive, is paid out.

If performance in a given quarter is negative then no performance fee is paid and no performance fee can be paid for future quarters until the performance deficit has been made up. For example, if Performance is positive in quarter 1, then a performance fee is paid at the end of quarter 1. If the Performance is negative in quarter 2, then no performance fee is paid. If, in quarter 3, the Performance is positive but the Performance from the start of quarter 2 to the end of quarter 3 is still negative then, again, no performance fee is paid.

If the Performance is positive in quarter 4, and the Performance from the start of quarter 2 (i.e. the Starting Date) to the end of quarter 4 is positive, then a performance fee is accrued and paid based on the Performance from the start of quarter 2 to the end of quarter 4.

## **Adviser Fees**

Investors may agree to pay a commission to their financial advisers who have referred them to invest in the Fund. Such adviser fees are charged by the financial adviser and are separate and additional to the fees charged by the Fund. Aquasia is not liable for the failure of an investor to pay such adviser fees.

## **Commissions**

The Fund does not currently pay any commission or other similar payments to financial advisers. However, it reserves the right to do so in the future.

## **Differential fees**

Aquasia may negotiate different fee arrangements with certain Unitholders. Aquasia is under no obligation to offer such terms to other investors.

# Additional Fund Information

## Legal Relationship with Investors

The Corporations Act, general law and the Constitution set out the rights and interests of investors in the Fund as Unitholders and also set out the rights, duties and obligations of Aquasia as the Trustee of the Fund.

## Constitution

The Fund is governed by its Constitution. The main provisions of the Constitution are summarised below. The Constitution is legally binding between Aquasia and each Unitholder. To the extent of any inconsistency between this IM and the Constitution, the provisions of the Constitution will prevail. Subject to the terms of the Constitution, Aquasia, as Trustee of the Fund, may amend the Constitution. A copy of the Constitution is available for inspection free of charge at the offices of Aquasia during normal business hours.

## Rights and Liabilities of Investors as Unitholders

Each Unit carries with it an equal beneficial interest in the Fund as a whole but not in any particular asset of the Fund. Fund income is only distributed to registered investors entitled to a distribution as at the last Business Day of the distribution period. Investors may not interfere with Aquasia's powers or exercise any rights in respect of any investment of the Fund. Under the Constitution, investors may:

- Transfer Units in the Fund with the consent of Aquasia.
- Requisition, attend and vote at meetings of the Fund.
- Share in the income and capital distributions of the Fund.
- Participate in the winding up of the Fund.

Generally, the Constitution limits an investor's liability to Aquasia as the Trustee of the Fund to the value of that investor's investment in the Fund.

However, no absolute assurance can be given due to the fact that this has not been tested in superior courts.

## Liability of Aquasia as the Trustee

Except in the case of its own actual fraud, gross negligence, or wilful default, Aquasia is not liable to any Unitholder for any loss or damage suffered in any way relating to the Fund and is in fact indemnified out of the Fund.

## Retirement and Removal of Aquasia as Trustee

Aquasia may be removed from the Fund in the circumstances set out in the Constitution. Aquasia may also retire voluntarily on not less than 14 days notice to Unitholders.

## Termination of the Fund

Aquasia may terminate the Fund at any time by giving notice to Unitholders. The Fund also terminates where otherwise required by operation of law. Where the Fund is terminated, Aquasia must sell all the assets of the Fund and distribute the net proceeds (after fees and winding up costs) to Unitholders in proportion to the number of Units held.

## Changing Fees, Expense Recovery and Buy Spread/Sell Spread

In accordance with the Constitution, Aquasia may change the amount of the Management Fee, Expense Recovery and Performance Fee in this IM or introduce certain new fees (including increasing current fees and the Expense Recovery cap up to the maximums set out in the Constitution (if any)) without the consent of investors on 30 days' advance notice.

In accordance with the Constitution and subject to law, Aquasia may vary the amount of recovery of Abnormal Expenses and Buy Spread and Sell Spread at any time without investor consent or notice.

## Administration of the Fund

Aquasia has engaged external service providers to undertake certain administrative functions for the Fund. The registry function for the Fund will be undertaken by One Registry Services Pty Limited (ACN 141 757 360). Unity Fund Services

Pty Limited (ACN 146 747 122) will undertake accounting and record keeping services including determining the value of Fund assets, calculating performance fees and preparation of financial reports.

## Custodianship of the Fund

The custodian of the Fund is currently:

Aquasia Pty Ltd  
ABN 20 136 522 051  
Level 10, 28 O'Connell Street  
Sydney, NSW 2000

Aquasia from time to time may use other custodians for some of the Fund's assets and has the right, in its absolute discretion, to appoint other custodians. Engaging a custodian is subject to an onboarding process which includes a review of the legal documentation and operational considerations and is subject to periodic review by the Investment Committee.

## Application Monies held in a Trust Account

The money paid to acquire Units in the Fund may be held by Aquasia or its Custodian in a trust account for the benefit of the prospective investor until Aquasia issues Units to the prospective investor. This trust account will be a non-interest bearing account. Any income attributable to that application money will not be payable to the prospective investor.

## Cooling-Off Period

No cooling-off period applies with respect to investments in the Fund.

## Suspension of the Calculation of the Net Asset Value of the Fund

Aquasia may declare a temporary suspension of the determination of the Net Asset Value of the Fund on any calculation date in certain circumstances, including where:

- The main market for a significant part of the Fund's assets is closed or trading is suspended or restricted.
- The price of a significant part of the Fund's assets cannot be reasonably, promptly or accurately ascertained.
- Aquasia considers it to be in the best interest of investors to do so.

## Rejection of Applications

It should be noted that, in accordance with the Constitution, other anti-money laundering and counter terrorism financing obligations, or for any other reason, Aquasia may reject applications for Units in its absolute discretion including where Aquasia considers it to be in the best interest of investors to do so or where it is impossible or impractical to calculate the current Net Asset Value of the Fund or otherwise as required by law.



## Redemption proceeds

The Constitution permits redemptions subject to the Trustee's absolute discretion. It should be noted that, in accordance with the Constitution, or anti-money laundering and counter terrorism financing obligations, Aquasia may determine or be legally required to withhold payment of redemption proceeds to an investor.

## Compulsory Redemptions

If an investor's investment balance falls below the minimum balance of A\$100,000 (or would fall below that balance following redemption of Units), Aquasia may in its absolute discretion close the investor's account and redeem all the investor's Units without receiving a redemption request from the investor.

The Constitution also provides that Aquasia may also compulsorily redeem an investor's Units in its discretion. This could include, for example, if at any time the investor ceases to be a Wholesale Client or if the investor is otherwise prohibited by applicable law from holding Units.

## In-Specie Transactions

The Fund does not currently intend to permit in-specie applications or redemptions however Aquasia reserves the right to accept in-specie transfers for applications or in satisfaction of redemptions in its absolute discretion and will determine the value of the assets being transferred in its absolute discretion.

If in-specie transfers are permitted, Aquasia may determine that some or all costs associated with the in-specie transfer will be paid by the investor.

## Transfers

Investors may only transfer their Units with the consent of Aquasia. Aquasia reserves the right to refuse any request to transfer any Units for any reason. Without limitation, it will not approve proposed transferees who are not Wholesale Clients or who have not satisfied all applicable AML/CTF checks.

## Conflicts of interest

Aquasia, and its directors and officers, may from time to time act as directors, managers, investment managers, trustees, advisers, or otherwise be involved in business activities other than as the Trustee and Investment Manager. The Fund may invest in assets in which Aquasia, and its directors and officers, may be involved in through its advisory or origination businesses. Aquasia and its directors and officers may also hold Units in the Fund. Accordingly, it is possible that there may be the potential for conflicts of interest to arise. Aquasia will endeavour to manage and resolve any such conflicts fairly and efficiently, enter into any transactions on an arm's-length basis and in accordance with its conflicts of interest policy.

## Dealing with Complaints

Aquasia has procedures in place for dealing with complaints. We will seek to acknowledge receipt of an investor's complaint in writing as soon as reasonably practicable and in any event within 14 days from receipt, and address the investor's complaint within 30 days. Investors with enquiries should contact Aquasia. Notification of any complaint should be made in writing and addressed to:

The Compliance Officer Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

## Privacy

Aquasia must comply with Australian privacy laws which regulate the collection, storage, quality, use and disclosure of personal information. Aquasia may collect personal information from investors to provide its products and services. In accordance with Aquasia's privacy policy (which is available free of charge by contacting us on 02 8061 4888 or [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au)), in most cases investors have rights to access their personal information. With regard to the Fund, Aquasia can use an investor's personal information to assess an investor's application for investment in the Fund and, if the application is accepted, to manage the Fund.

Aquasia may disclose information to related entities, and anyone acting on Aquasia's behalf such as external service suppliers who supply administrative, financial or other services to assist Aquasia in providing financial services for the Fund, anyone the investor has authorised, or government departments or agencies, tax or revenue authorities (including the ATO which may pass this information onto foreign tax authorities, such as the US Internal Revenue Service). If we are not able to collect all the personal information we require, we may not be able to assess the investor's application or manage the investor's investment in the Fund.

We may transfer your personal information outside of Australia to other countries or disclose it to persons (including regulators) located outside of Australia. Further details are included in Aquasia's privacy policy. Please note that if an investor provides personal information to Aquasia about another person, the investor warrants that the investor is authorised by that person to do so and that the investor has informed that person of the information in this 'Privacy' sub-section.

Enquiries regarding access to personal information must be in writing and addressed to:

The Compliance Officer Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

If you have any queries regarding our treatment of your privacy, please contact us on +61 2 8061 4888 or [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au).

## FATCA

The Foreign Account Tax Compliance Act ('FATCA') was enacted by the US Congress in March 2010 as an attempt to capture income earned by US citizens in foreign jurisdictions. It imposes due diligence and reporting obligations on foreign financial institutions including the obligation to report to the ATO where Aquasia clients have a connection with the US. As part of the Application Form, applicants will be required to self-certify their FATCA status. Failure to do so may require us to withhold moneys from distributions.

## Common Reporting Standard

The OECD Common Reporting Standard ('CRS') requires Australian banks and financial institutions to collect and report to the ATO various account relation information of investors who are foreign tax residents. In the Application Form, you will be required to advise your country of residence for tax purposes and, if applicable, your tax identification number ('TIN'). Additional information may also be required before we can process your application.

## Up-to-date Information

Certain information in this IM may change from time to time. This includes but is not limited to potential changes which we have identified. Where we indicate to the investor that we will give notice of such changes, or where the updated information includes no materially adverse information, we will publish the updated information on our website [www.aquasia.com.au](http://www.aquasia.com.au). A copy of the updated information will be available free of charge upon request by contacting Aquasia.

## Contacting Aquasia

Attention: Colin McKeith

Aquasia Pty Ltd  
GPO Box 4510  
Sydney NSW 2001

Phone: +61 2 8061 4888

Email: [enquiries@aquasia.com.au](mailto:enquiries@aquasia.com.au)



# Australian Taxation Implications

**Important advice: Potential investors should obtain specific taxation advice referable to their own circumstances prior to making any investment decision.**

The following information is a general tax summary of the key Australian income tax, stamp duty, and GST implications of investing in the Fund for individuals who are permanent Australian resident taxpayers (unless otherwise specified). These individuals are assumed to hold their Units in the Fund beneficially and on capital account and to be dealing at arm's length. Individuals holding Units in the Fund will receive a statement from the Fund following the end of a financial year detailing their share of the Fund's net income and identifying the taxation components of their distributions.

The information in this summary is general in nature. It does not constitute legal or tax advice and does not seek to address all of the tax issues that may be relevant to a prospective investor. Taxation issues are complex and tax laws, their interpretation and associated administrative practices may change over the term of an investment.

All references in this tax summary to legislative provisions are to provisions of the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 (together, the 'Tax Act'), unless otherwise stated.

Tax outcomes will vary according to individual circumstances and prospective investors are advised to seek their own independent tax advice in respect of their proposed investment in the Fund. All tax liabilities are, and will remain, the responsibility of each investor. Aquasia does not take into account the taxation position of individual Unitholders in the Fund and is not responsible for any tax liabilities or penalties incurred by investors in any circumstances.

The taxation summary is based on the Australian taxation laws in force and the administrative practices of the Australian Taxation Office (the 'ATO') generally accepted as at the date of this IM. These may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and future legislation may have retrospective effect.

## Taxation of the Fund

The Fund is an Australian resident trust for Australian tax purposes. Aquasia intends to limit the investment activities of the Fund to ensure that it is treated as a 'flow through' entity for Australian tax purposes (i.e. so the Fund is not effectively taxed as a company).

Aquasia (as Trustee of the Fund) should not generally be liable for tax on the Fund's net (taxable) income (other than on behalf of non-resident investors – see "Australian Withholding Tax for New Zealand Resident Investors" below), on the basis that the Fund will have an amount of distributable income each income year and investors in the Fund that are not under a legal disability will be presently entitled to, or attributed (where the Fund is an Attribution Managed Investment Trust ('AMIT')) all of the income of the Fund each year.

The AMIT provisions in the Tax Act apply to qualifying managed investment trusts ('MITs') that make an irrevocable election to become an AMIT. The consequences for Australian resident investors should be similar whether the Fund is an AMIT or not. An AMIT must attribute its taxable income to investors on a fair and reasonable basis, and investors are advised of their share of the taxable income and any cost base adjustment, via an AMIT Member Annual Statement. Aquasia has not yet determined whether the Fund is eligible for, or will elect into, the AMIT regime.

## Net (taxable) Income of the Fund

The following amounts (determined in Australian dollars) are generally taken into account in determining the net (taxable) income of the Fund:

- interest received on the Fund's investments;
- gains or losses from the disposal or redemption of the Fund's investments;
- expenses or fees that the Fund incurs from time to time (including interest on borrowings by the Fund, subject to certain limits);
- gains or losses or amounts received or paid on hedge arrangements entered into by the Fund;
- foreign exchange gains and losses; and
- other sources of income.

## Taxation of Financial Arrangement (TOFA) Rules

The timing of recognition for tax purposes of these amounts included in the Fund's taxable income may be affected by the application of Division 230 of the Tax Act (the 'TOFA Rules').

The Fund's investments, borrowings and hedge arrangements are 'financial arrangements' that may be subject to the TOFA Rules. Under these rules, gains or losses may be brought to account on either an accruals basis, a realisation basis or in some instances using a number of elective recognition methods depending on the nature of the gain or loss and whether it is considered 'sufficiently certain' under the TOFA Rules.

## Foreign Taxes

The Fund may derive foreign source income that might be subject to foreign tax. Foreign laws are varied and can apply in uncertain ways.

If the Fund suffers any amount of Australian or foreign tax, or is required to withhold any amount in respect of Australian or foreign tax, the Trustee nor the Fund will be required to compensate you for any such tax, and the effects of these amounts will be reflected in the returns of the Fund.

## Discounts, Credits and Offsets

It is not expected that investors will be entitled to any Capital Gains Tax ('CGT') discount or franking credits in respect of distributions from the Fund. You may be entitled to tax offsets (e.g. foreign income tax offsets) distributed by the Fund. Subject to limits and provided that investors satisfy certain provisions of the Tax Act, investors may be able to utilise these credits against their tax liability on the taxable components of the distributions. In order to claim the amount of tax credits, investors must include the amount of the credits in their assessable income.

## Trust Losses

Tax losses incurred by the Fund (whether revenue or capital) cannot be distributed to investors but may accumulate in the Fund. Accumulated losses may be carried forward and used to offset the Fund's future taxable income (subject to the satisfaction of the loss recoupment rules).

## Taxation of Investors

The Constitution provides that investors are presently entitled to their proportionate share of trust income, unless the Trustee has elected for the Fund to be taxed as an AMIT in which case the taxable income of the Fund will be attributed to investors by the Trustee.

Each investor will be required to include their share of the taxable income of the Fund as assessable income in the financial year to which the distribution relates. This takes into account income that has been reinvested, or for which an entitlement has arisen but which has not yet been distributed to the investor.

Investors will receive an annual distribution statement identifying the components of their distributions.

Distributions from the Fund may include non-assessable amounts, including returns of capital. Such amounts are not taxable as income to investors when distributed but may reduce the cost base of their Units held in the Fund which may impact the CGT liability that arises on the disposal of the Units.

An investment in Units should generally not be subject to the TOFA Rules.

## CGT Treatment

Your assessable income for each year may include net realised capital gains (i.e. after offsetting capital losses). Investors may make a capital gain or capital loss when they dispose of their Units. As a general rule, where the proceeds on disposal of an investor's Units are greater than the cost base of those Units, the investor will make a capital gain.

The cost base of investors' Units for CGT purposes will include, among other things, the amount paid to acquire the Units and certain types of incidental costs. Where investors receive a distribution in excess of their share of the net income of the Fund, the amount of the distribution not included in their assessable income may reduce the cost base in their Units.

The amount of proceeds on disposal will depend on whether or not the investor redeems the Units or whether the investor disposes of the Units to a third party.

If investors redeem their Units, their total redemption proceeds may comprise both a distribution of income from the Fund and a payment for the redemption of their Units. In these circumstances, only the component relating to the payment for the redemption of Units will be relevant in determining whether or not investors make a capital gain or loss.

Where investors are able to assign or sell their Units to a third party, the total sale proceeds they receive for this assignment will be taken into account in determining whether they make a capital gain or capital loss.

Where the CGT discount is available to an investor, only half (if the investor is an individual or trust) or two thirds (if the investor is a complying superannuation entity) of any capital gain realised on the disposal or redemption of Units will be included in the investor's assessable income.

If investors make a capital loss on the disposal of their Units, this loss can only be offset against capital gains investors have realised from other sources and not against other ordinary income, like distributions or wages. However, capital losses can be carried forward and used to offset capital gains that an investor makes in later years (subject to the satisfaction of tax loss recoupment rules).

## Tax File Numbers and Reporting

If an investor does not provide a tax file number or claim a valid exemption (or if investing in the Fund in the course of an enterprise does not provide an Australian Business Number), Aquasia will be required to deduct tax from the investor's distributions at the highest marginal tax rate applicable to individual taxpayers (plus Medicare levy and applicable government charges). Any tax file number an investor provides will be reported to the ATO by Aquasia in connection with the investor's investment.

## Australian Withholding Tax for New Zealand Resident Investors

Non-resident investors (for tax purposes) should seek their own independent taxation advice regarding their local, as well as Australian, taxation obligations. Aquasia is required to withhold tax from distributions to investors who reside outside Australia, including investors resident in New Zealand. This may be imposed in the form of withholding tax or otherwise imposed on the trustee so as to reduce the amount of distributions made.

The rate of tax will depend on the type of income included in the distribution as well as the residence of the recipient (e.g. interest amounts will usually be subject to final withholding tax at 10%, unless an exemption applies). If the Fund satisfies the MIT eligibility requirements, any non-interest and non-dividend profits derived from investments of the Fund (which may include gains on sale of fixed-income securities, and income and profits on derivatives held by the Fund) will be subject to a final withholding tax of 15% when distributed to New Zealand resident investors.

Foreign-sourced (i.e. non-Australian sourced) income may be free from Australian tax when distributed to a New Zealand resident investor.

The Fund will monitor its MIT status. If the Fund is not eligible for MIT treatment, non-interest and non-dividend Australian-sourced profits may be subject to tax at higher rates, which may also require the filing of Australian tax returns by New Zealand resident investors.

Different tax consequences may apply in relation to gains or losses of non-resident investors from the disposal of the units, including whether any gains are subject to tax in Australia.

## Stamp Duty

It is not expected that investors will become liable to pay stamp duty in any State or Territory on the basis that the assets of the Fund will not comprise land or an interest in land (such as a lease).

Depending on the nature of the asset, stamp duty may be payable on the acquisition of the assets by the Fund. This will be a Transaction Cost for the Fund.

## GST

GST will not apply to the issue or redemption of Units. GST may apply to the fees charged to the Fund by Aquasia and some other expenses of the Fund (including the acquisition of certain types of assets). The Fund may be entitled to a reduced input tax credit of at least 55% of the GST paid in respect of certain expenses. GST may also apply to fees and commissions charged to investors. Investors should obtain independent advice as to whether they are entitled to claim any input tax credits.

# New Zealand Taxation Implications

**Important advice: Potential investors should obtain specific taxation advice referable to their own circumstances prior to making any investment decision.**

The following information is a general tax summary of the key New Zealand income tax, stamp duty, and GST implications of investing in the Fund. Its scope is limited to investors dealing at arm's length, who are solely New Zealand resident taxpayers, who acquire investments of less than 10% in the Fund. It is not anticipated that the Fund will be under the control of New Zealand residents. It is assumed the investors do not hedge their investment into NZ\$. The Fund invests in A\$ securities and does not hedge its investments into NZ\$. Different rules may apply where these requirements are not met.

The information in this summary is general in nature. It does not constitute legal or tax advice and does not seek to address all of the tax issues that may be relevant to a prospective investor. Taxation issues, especially those relating to the taxation of foreign investments, are complex and tax laws, their interpretation and associated administrative practices, may change over the term of an investment. As tax treatment varies according to individual circumstances, prospective investors need to seek their own independent tax advice in respect of their proposed investment in the Fund. The application of the general anti-avoidance rules is capable of broad application and should be carefully considered in relation to any investment decision.

All tax liabilities are, and will remain, the responsibility of each investor. Aquasia is not responsible for any taxation or penalties incurred by investors in any circumstance. Aquasia does not take into account the individual taxation position of Unitholders in the Fund and is not responsible for any taxation or penalties incurred by investors in any circumstances.

All references in this tax summary to legislative provisions are to provisions of the Income Tax Act 2007 (the 'Tax Act'), unless otherwise stated.

The taxation summary is based on the New Zealand taxation laws in force and the administrative practices of the Inland Revenue Department (the 'IRD') generally accepted as at the date of this Supplement. Any of these may change in the future without notice and legislation introduced to give effect to announcements may contain provisions that are currently not contemplated and may have retroactive effect.

## Status of Investments in the Fund

The Fund is a unit trust which is treated as an Australian resident for Australian tax purposes. The Fund will be investing in passive income in Australian debt securities and will not conduct an active business nor have a significant New Zealand business. Aquasia intends to limit the investment activities of the Fund to ensure that it is treated as a 'flow through' entity for the purposes of Australian tax. The Fund will not be listed on an Australian stock exchange.

An investment in Units in the Fund should generally not be regarded as a financial arrangement subject to the financial arrangement rules in the Tax Act.

Investments in Units in the Fund will therefore be classified as foreign investment fund (FIF) interests under the Tax Act.

## Tax Treatment of Investors

### *Attribution*

Subject to certain exclusions, a person's interest in a foreign investment fund gives rise to the attribution of FIF income or, in limited cases, a FIF loss for an income year.

One exclusion is that relating to units held in Australian resident unit trusts which satisfy the 70% minimum distribution test and which utilise a resident withholding tax proxy. In the present case it is not anticipated that this exclusion will apply.

Nor is it anticipated that the other exclusions from the attribution of FIF income will apply to non-individual investors covered by the scope of this supplement on the basis that an investor's interest in the Fund will not exceed the 10% thresholds, and units in the Fund will not be listed in Australia. Additional exemptions may be available for investors who are individuals and investors acquiring a 10% or greater interest. Independent advice will need to be sought by such investors.

### **Calculation methods**

Where income is attributed under the FIF rules, the FIF income may be calculated under one of several calculation methods, the most relevant being:

- the fair dividend rate method; and
- the cost method.

These methods are exclusive codes for the calculation of FIF income so that both dividends derived and gains on disposal are ignored. In spite of this, a tax credit may still be allowed for foreign withholding taxes on the dividends based on a formula to determine the amount of New Zealand income tax on a segment of foreign-sourced income. Currency conversion rules also apply. There is an accompanying prohibition on the deduction of amounts incurred in acquiring the attributing interest (unless the calculation method itself expressly provides for a deduction of the cost).

A common calculation method must be applied if the investor has more than one attributing interest in the same FIF unless the interests are different classes, or application of the common method is specifically restricted.

Generally, a calculation method, once adopted, must continue to be applied in later income years.

### **Fair Dividend Rate Method**

The fair dividend rate method is the starting point for the calculation of FIF income. Under this method, the FIF income is 5% of the market value of the interest at the start of the income year. There are special provisions for quick gains from purchases and sales made during the year. There are also periodic rules for investors who make investments for the benefit of other investors.

Adoption of this method is subject to being able to ascertain market value of the FIF without an independent valuation. It does not apply for interests in a FIF that are "non-ordinary shares" as defined in the Tax Act, which is not anticipated to be the case.

### **Cost Method**

Where the opening market value can be determined only by an independent valuation, the cost method may be used. Under this method, the FIF income is basically 5% of the cost of the investment with the cost being uplifted by 5% each year to allow for investment growth. Investors are required to use an independent valuation if the investment was not a FIF investment in the previous income year.

### **Other Methods for Individuals**

Individuals may elect into the "Comparative Value Method" (a market value based method) or the "Deemed Rate of Return Method" depending on their personal circumstances, in which case independent advice will need to be sought.

## **Stamp Duty**

New Zealand stamp duty will not apply.

## **GST**

New Zealand GST will not apply to the issue or redemption of Units.

### **Please Note:**

*Aquasia is required to deduct Australian withholding tax from distributions to New Zealand resident investors. Please see "Australian Withholding Tax for New Zealand Investors" on page 25.*



# Glossary

<b>Abnormal Expenses</b>	Out-of-pocket expenses incurred by Aquasia in managing and administering the Fund which are not generally incurred during day-to-day operation of the Fund in any given year and which are not included in Fund Expenses
<b>ABS</b>	Asset-backed securities; a type of debt based on a pool of underlying assets.
<b>AML/CTF Law</b>	Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) and related rules as amended from time to time.
<b>Application Form</b>	An application form accompanying this IM.
<b>Aquasia</b>	Aquasia Pty Ltd.
<b>ASIC</b>	Australian Securities and Investments Commission or if it ceases to exist, any regulatory body or authority as then serves substantially the same objects.
<b>ATO</b>	Australian Taxation Office.
<b>A\$ or AUD</b>	Australian Dollars.
<b>Business Day</b>	A day, that is not a Saturday, Sunday or public holiday, on which banks are open for business generally in Sydney.
<b>Buy Spread</b>	The charge incurred by investors making applications into the Fund to cover the Transaction Costs associated with the buying and selling of assets for the Fund. The Buy Spread is currently 0.20% of the Net Asset Value per Unit.
<b>CGT</b>	Capital Gains Tax.
<b>Constitution</b>	The constitution of the Fund, being the trust deed dated 5 April 2018 as amended or replaced from time to time.
<b>Convertible Notes</b>	Debt which combines debt and equity characteristics
<b>Corporations Act</b>	Corporations Act 2001 (Cth), as amended from time to time.
<b>Custodian</b>	Aquasia Pty Ltd or such other custodian of the Fund as Aquasia may appoint from time to time.
<b>Expense Recovery</b>	Aquasia's reimbursement for Fund Expenses as described on page 15.
<b>Fund</b>	Aquasia Private Investment Fund
<b>Fund Expenses</b>	Has the same meaning as defined on page 15.
<b>GST</b>	Goods and Services Tax. GST has the meaning given in the GST Law.
<b>GST Law</b>	Has the meaning given in A New Tax System (Goods and Services Tax) Act 1999 (Cth).
<b>Hybrid Securities</b>	Subordinated debt which combines debt and equity characteristics.
<b>IM</b>	This information memorandum dated 1 July 2021.

<b>Investment Committee</b>	The investment committee for the Fund who are responsible for overseeing the activities of the Fund from an investment, operation and compliance perspective and who will set the Fund's ongoing strategy. The current members of the investment committee are set out on pages 4-6.
<b>Investment Manager</b>	Aquasia Pty Ltd.
<b>Issue Price</b>	The price at which Units are issued to investors and calculated as described on page 13.
<b>Management Fee</b>	Has the same meaning as defined on page 15.
<b>Net Asset Value of the Fund</b>	Net asset value of the Fund, as determined in accordance with the Constitution.
<b>NZ\$ or NZD</b>	New Zealand Dollars.
<b>New Zealand law or NZ Law</b>	Financial Conduct Act 2013 NZ.
<b>Other Foreign Currencies</b>	The currency of any country or countries except the currency of Australia.
<b>Performance Fee</b>	Has the meaning as defined on page 16.
<b>Redemption Date</b>	Has the meaning as defined on page 14.
<b>RMBS</b>	Residential Mortgage Backed Securities; a type of asset-backed security where the underlying assets are residential mortgages.
<b>Sell Spread</b>	The charge incurred by Unitholders upon the redemption of Units to cover the Transaction Costs associated with the buying and selling of assets for the Fund. The Sell Spread is currently 0.20% of the Net Asset Value per Unit.
<b>Subordinated Debt</b>	A bond or loan that ranks below senior debt but ahead of equity.
<b>Target Return</b>	10% p.a. (net of fees).
<b>Tax Act</b>	Together, the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997, unless otherwise stated.
<b>TOFA Rules</b>	Division 230 of the Tax Act.
<b>Transaction Costs</b>	Costs associated with the buying and selling of assets for the Fund.
<b>Trustee</b>	Aquasia Pty Ltd.
<b>Unit</b>	Unit of the Fund.
<b>Unitholder</b>	The person(s) named in the Aquasia Private Investment Fund register of unitholders as holder of a Unit.
<b>Wholesale Clients</b>	Persons who qualify as 'wholesale clients' for the purposes of Section 761G of the Corporations Act 2001 (Cth) or as "wholesale investors" under the Financial Conduct Act 2013 NZ.



## Notes

# Directory

## **Trustee, Manager, Investment Manager and Custodian**

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