

**LOFTUS PEAK GLOBAL CHANGE MODEL PORTFOLIO  
INVESTMENT MANDATE**

April 2014

Loftus Peak

## INVESTMENT MANDATE

# About the Loftus Peak Global Change Model Portfolio

## 1. MODEL PORTFOLIO OBJECTIVE

The Loftus Peak Global Change Model Portfolio (Model Portfolio) aims to deliver a return over the MSCI ACWI (net) (as expressed in AUD from Bloomberg), over the medium to long term by a bringing disciplined investment process to listed global companies impacted by change.

Technology is changing the world, with the leap now analogous to that which took place during the industrial revolution. Over the past 20 years, technology and innovation have changed the face of major sharemarkets globally. The Model Portfolio will attempt to harvest return from this thematic.

Given the nature of global equities and multi-currency exposures, investors should note that they face currency risks as highlighted in the risks section of this agreement. If the Investor wishes to actively manage the currency exposure, they should contact Mason Stevens to assist in the formulation of a specific tailored solution.

## 2. MODEL PORTFOLIO STRATEGY

The Model Portfolio offers investors the opportunity to potentially profit from the rapid, exponential growth in innovation. The Model Portfolio will follow a long-only strategy that will result typically in 10-30 investments. It will also be able to move to around 50% cash from time to time, when the sharemarket is judged to be overvalued.

The central philosophy of the portfolio is to generate return while managing risks. It will do this by investing the majority of the portfolio in names that Loftus Peak (Program Adviser) believes have profitability or clear paths to it. The balance of the portfolio, when fully invested, will be given over to the emerging leaders which are the new growth companies.

The Model Portfolio does not invest in start-ups.

## 3. MANAGED DISCRETIONARY ACCOUNT OPERATOR

Mason Stevens, as the Managed Discretionary Account (MDA) Operator, will administer and implement the Model Portfolio on the instructions of Loftus Peak, and report back all changes as advised by Loftus Peak on a regular basis (see Section 18 on page 10 for "Reporting to You").

It is expected that the performance of the Model Portfolio will come from a combination of capital growth and dividends, with capital growth likely to provide the largest contribution. However, dividends will likely form a part of performance.

## INVESTMENT MANDATE

# About the Loftus Peak Global Change Model Portfolio and Loftus Peak

## 4. MODEL PORTFOLIO PARAMETERS

Feature	Description
Investment universe	Listed global equities
Benchmark	MSCI ACWI (net) (as expressed in AUD from Bloomberg)
Number of investments	10-30
Minimum cash weighting	1%
Maximum equity weighting	99%
Maximum weighting per investment	20% at the time of purchase
Rebalance	Program Adviser's discretion
Minimum investment	A\$250,000
Minimum additional investment	A\$50,000
Suggested minimum investment timeframe	5 years

Please note, these parameters are not absolutely fixed at all times. The Program Adviser targets these parameters but small variations may develop from time to time due to corporate actions, market share prices, index changes and delays in rebalancing due to the Program Adviser minimising turnover of your investments. The timing of additional investments in your Managed Account may also lead to short-term different balances of cash and securities. Mason Stevens will give you reasonable notice of any significant change to these parameters.

## 5. ABOUT LOFTUS PEAK

Loftus Peak Pty Ltd (Loftus Peak) (ACN 167 859 332) is the Program Adviser for the Loftus Peak Global Change Model Portfolio. Loftus Peak is a corporate authorised representative (CAR No 455284) of Eight Investment Partners Pty Limited (8IP) (ACN 139 616 783, AFSL 342 305), and this enables the provision of financial product advice and dealing in financial products to wholesale clients.

Loftus Peak is a bottom-up stock investor that seeks to deliver absolute returns over the medium to long term. Loftus Peak believes that this investment style can be consistently successful by applying the following strategies:

- having an interpretation edge through extensive, proprietary research
- adopting a contrarian investing approach to exploit mispricing of shares
- acting as an investor with a long term mind-set.

Loftus Peak will apply its established investment process to select a concentrated portfolio of global equities impacted by change. This process seeks to identify companies that can deliver attractive shareholder returns through both valuation expansion and compounding of fundamental value.

## 6. INVESTMENT MANAGEMENT TEAM

The investment team members are:

### **Alex Pollak** Executive Director and Research Analyst, Loftus Peak

Alex is a former executive director of Macquarie Group, specialising in analysis of media and technology companies. For over 20 years, he has been a significant contributor to the debate within financial markets about the shifting valuations in this area, in particular identifying the shift in the business model from media to on-line classified advertising.

He was the lead analyst for Seek and Carsales.com, both of which were floated by Macquarie Group.

He is a former finance journalist for the Sydney Morning Herald.

## INVESTMENT MANDATE

# About Loftus Peak

## **Paul Davis** **Executive Director and Research Director, Loftus Peak**

Company director, entrepreneur and private investor with previous roles in engineering, software, internet, venture capital, and investment management.

Paul founded ETrade, which was bought by ANZ for A\$400m.

Paul also founded and was Head of Research at TechInvest, a privately held investment manager of global technology equities (1998 to 2010). From 1992 to 1996, he worked at BT Funds Management.

He has a Bachelor of Science in Mechanical Engineering from Stanford University, California, an MBA (University of Otago). He is also a CFA charterholder and former PhD candidate, and a Research Fellow at both Bond and Melbourne University.

Paul also published the TechnologyInvestmentDotInfo blog with over 10,000 daily views.

Paul's current external board roles:

- Chairman, Invert Robotics – Robotic inspection services for industrial structures.
- Director, ArcActive – Proprietary materials science for energy storage.

## **Ashley Young** **Portfolio Manager and Research Analyst, Loftus Peak**

Ashley was co-founder of TechInvest and served as the Chief Investment Officer from 1999 until 2010.

Ashley has a Bachelor of Science with First Class Honours in Economics (University of Canterbury, Christchurch, New Zealand), is a CFA charterholder, a Master of Applied Statistics (Macquarie University, Sydney, Australia) and a Master of Science in Bioinformatics (University of Oxford, UK).

## **Anshu Sharma** **Portfolio Manager and Research Analyst, Loftus Peak**

Anshu has five years' experience in technology stocks as a portfolio manager. He was the Portfolio Manager/Lead Analyst for the Asian technology sector for Eight Investment Partners (8IP) from January 2011 to December 2012, during which time he outperformed the MSCI Asia Technology benchmark by more than five percent per annum.

Prior to joining 8IP, Anshu worked as an Investment Analyst at TechInvest, a specialist global equity manager. There, he was responsible for fundamental equity analysis and providing analytical support for portfolio management. Anshu holds a Masters of Commerce in Finance from the University of New South Wales, a Bachelor of Commerce Honours from Delhi University, India and has attained the Certificate in Investment Performance Measurement (CIPM) from the CFA Institute.

## **Rick Steele** **Chief Executive Officer, 8IP, and Executive Director, Loftus Peak**

Rick has more than 30 years in funds management and government in roles as economist, investment manager and management. Most recently, Rick has served as CEO at Eight Investment Partners and TechInvest, following more than 10 years at BT Funds Management.

## INVESTMENT MANDATE

## Investment risks

## 7. RISKS

Before you make an investment decision it is important that you understand the risks that can affect your investment.

All forms of investment involve a degree of risk. This could be that your investment does not meet your investment objectives or that you lose money on your investment.

Specific investment risks apply to all investments that may have an effect on the value of your Managed Account. The risks of investing in the Model Portfolio may include, but are not limited to, the following factors:

- **Investment risk** - All investments have an inherent level of risk. The general expectation is that a high-risk investment offers a higher expected return on investment. Investment risk may result in performance less than you expect or the loss of all of the capital invested or reduction in or no income and possible delays in repayment. Whilst it is the intention of the Program Adviser to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful.
  - **Specific Portfolio Risk** - The Program Adviser's investment approach may result in a model portfolio that differs substantially from an industry benchmark and hence the Model Portfolio's investment returns may also differ substantially from industry benchmark returns.
  - **Market risk** - Unexpected conditions (i.e. economic, technological or political) can have a negative impact on the returns of all investments within a particular market. General movements in local and international stock markets, prevailing and anticipated economic conditions, investor sentiment, interest rates and exchange rates could all affect the value of listed securities and the investment returns.
  - **Company or security specific risk** - Risks which could affect the value of a specific security, such as a fall in the profit performance of a company, may impact adversely on its share price and may also affect the interest rate it has to pay to borrow funds, which in turn, can affect the value of its debt securities.
- Other risks of investment include:
- **Economic Risk** - A downturn in the general economic conditions in Australia or globally may adversely affect the performance of the Model Portfolio.
  - **Currency risk** - There is a risk that the Model Portfolio is exposed to risk as a result of any unhedged investments that are denominated in foreign currencies. Returns to investors in their base currency (i.e. Australian dollars) are affected by changes in foreign currency rates.
  - **Diversification** - Failure to adequately diversify between stocks and sectors may significantly increase risk.
  - **Interest rate risk** - Changes in interest rates can influence the value and returns of investment in the Model Portfolio.
  - **Credit risk** - Any change in the market perception of the creditworthiness of a security or the credit rating of the issuer of the security may affect the security's value.
  - **Program Adviser risk** - This is the risk that the Program Adviser may not achieve their stated investment objectives or that changes in the investment team may impact on the performance of the Program Adviser.
  - **Liquidity risk** - The risk that the Model Portfolio will experience difficulty in realising its assets.
  - **Performance Fee risk** - The risk that the Performance Fee will reduce the total return of the Model Portfolio. However, since the Performance Fee only applies if the Model Portfolio outperforms, it is aligned with capital growth for the investor.
  - **Inflation risk** - Your investment may not keep pace with inflation. Broadly, this could mean that prices may increase more than the value of your investments in the Model Portfolio and if this risk eventuates, you would not be able to buy as much with the value of your investments in the future as you could now.
  - **Concentration risk** - If your portfolio is concentrated into one investment or sector, a fall in that investment or sector may have a significant adverse effect on your total portfolio. Diversification is used as a strategy aimed at reducing the impact that volatility in one investment or sector will have on the performance of your overall portfolio. The Model Portfolio will have a relatively higher concentration over time of listed securities but it is not possible to advise in advance the levels of concentration or diversification of issuers, types of investments or industry sectors.
  - **Complexity Risk** - Since investments have relatively complex terms and details, including multi-jurisdictional tax and legal issues. While these factors will be taken into account, Mason Stevens relies on publicly available information and does not independently verify the accuracy of the issuer's statements.
  - **Performance risk** - While the managed account service is managed within a risk management framework, the strategies adopted for the Model Portfolio may not be successful and the value of a total portfolio may decline.
  - **Time horizon risk** - There is no assurance that in any time period, particularly in the short term, a portfolio will achieve its investment objectives. Many of the underlying assets may be volatile particularly over the short term. The Model Portfolio is suitable for medium to long term investors and is not designed for short term investment.

## INVESTMENT MANDATE

# Investment risks

- **Individual investment risk** - Investments held by a portfolio can and do fall in value for many reasons, such as changes to the business operations, management, legislative or environmental factors that may affect the issuer of the investment. The value of an individual company's securities may change as a result of factors such as changes in management, market sentiment or industry specific events. Each investment manager aims to reduce this risk through careful research and analysis, combined with a value bias investment approach and diversification.
- **Third party risk** - The Service uses information and services provided by third parties such as sub-custodians and other service providers. Procedures are in place to address risks associated with outsourcing, such as having comprehensive service agreements with service providers. If a service provider advises of an error, it is corrected and if material, it will generally be communicated to you or your advisor (or both).
- **Systems and technology risk** - The Service relies on the integrity and reliability of the Model Portfolio trading and administration systems used to manage your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have back-up arrangements and business continuity plans. In the event that the systems fail there may be delays in processing transactions or in accessing your investment capital and investment returns may differ from those that would have been achieved.

## INVESTMENT MANDATE

## Investing &amp; fees

**8. INITIAL AND SUBSEQUENT CONTRIBUTIONS**

A minimum investment of A\$250,000 is required to establish your account.

Additional contributions may be made at any time subject to a minimum contribution limit of A\$50,000.

Please note that any additional contribution of funds may be held in cash until Mason Stevens undertakes the next rebalance of the Model Portfolio and the timing of the investment of those funds is entirely at the discretion of the Program Adviser.

**9. INCOME**

Income received on investments held in your Model Portfolio will be credited to your cash holding of that Portfolio. At the discretion of the Program Adviser, the income may be used to add to existing investments in your Model Portfolio, invested in a new security or investment, or held in cash.

**11. FEES**

The following fees and other costs are inclusive of GST unless otherwise stated. These fees may be subject to change from time to time. You will be notified of any changes and given not less than 30 days' written notice for any increase. Fees are charged in \$A. If the Managed Account is not holding sufficient \$A, currency will be converted at the prevailing rate(s). Please refer to Section 7 on page 5 for further details on "Currency Risk".

**10. REDEMPTION FROM THE MODEL PORTFOLIO**

Investors may exit the Model Portfolio at any time by notifying Mason Stevens in writing. We will try to effect redemption within one business day after the day Mason Stevens receives a valid redemption notice, subject to exchange procedures and trading.

Exit from the Model Portfolio will incur transaction costs on the sell down of securities. No additional charges or levies will apply, however, you may incur a capital loss or be liable for Capital Gains Tax as a result of the exit.

Partial redemptions may be made at any time subject to maintaining a minimum account balance of A\$250,000.

Mason Stevens recommends that you obtain your own tax advice as the result may vary depending on your individual circumstances.

Fee type	Detail
Management fee	1.00% p.a. calculated daily and charged monthly in arrears.
Performance Fee	15% of the Outperformance, where the Outperformance is the portfolio value at the end of the performance period (after all fees but before performance fees) less the notional value had the investor funds accumulated at the Benchmark returns. Performance periods are half yearly ending on 31 December and 30 June. Returns exclude franking credits. For a full explanation of the calculation of the Performance Fee see the section below titled Performance Fee Calculation.
Transaction cost	0.55% of the value of each transaction. Minimum transaction cost per trade is A\$82.50
Administration & Custody fee	0.275% p.a. on balances up to and including A\$1,000,000. Calculated daily and charged monthly in arrears.  0.055% p.a. on the portion of the balance above A\$1,000,000. Calculated daily and charged monthly in arrears.
Account service fee	A\$165 p.a. charged monthly in arrears (or on termination).
Adviser fees	You may also agree with your financial adviser an entry and/or ongoing fee to be paid which is automatically deducted from your Managed Account. The timing and amount of the payment of this fee will depend on what you agree with your financial adviser. All adviser fees must be disclosed to you.



## INVESTMENT MANDATE

## Investing &amp; fees

**12. PERFORMANCE FEE CALCULATION**

The Performance Fee is 15% of the Outperformance, where the Outperformance is the portfolio value at the end of the performance period (after all fees but before performance fees) less the notional value had the investor funds accumulated at the Benchmark returns. The Benchmark return is based on the MSCI ACWI (net) (as expressed in AUD from Bloomberg). If this is unavailable, an alternative rate or benchmark may be used.

The Outperformance must be positive for a Performance Fee to be paid. Any underperformance (or negative Outperformance) is carried forward to the next or subsequent performance periods where, after indexing by the Benchmark returns, it is offset against future portfolio performance.

Performance periods are half yearly ending on 31 December and 30 June. Returns exclude franking credits.

The Performance Fee in a Performance Period as at the end of the Performance Period is calculated as follows:

Performance Fee	=	Outperformance x 15% (inclusive of GST) subject to the Outperformance being positive at the end of the Performance Period*
Outperformance	=	$P_E - B_E$
$P_E$	=	Portfolio value at the last day of the Performance Period after all fees and charges but before the performance fee payment for that period. Portfolio value for the purposes of this performance fee calculation means the gross market value of investments including cash less liabilities.
$B_E$	=	Benchmark portfolio value at the last day of the Performance Period based on returns on the MSCI ACWI (net) (as expressed in AUD from Bloomberg). This is calculated as follows:
		$\sum_{i=0}^E F_i \times \frac{\text{Index}_E}{\text{Index}_i}$
$E$	=	Last day of the Performance Period
$i$	=	Day "i" of the Performance Period
$F_i$	=	Amount invested or withdrawn by investors on day "i" of the Performance Period, where $F_i$ is a positive number for new investments and negative for withdrawals, and  $F_0$ is the Portfolio value as at the end of the previous Performance Period (after all fees and withdrawals) plus the absolute value of any negative Outperformance at the end of the previous Performance Period.



## INVESTMENT MANDATE

## Investing &amp; fees

Index<sub>*i*</sub> = Benchmark Index based on the MSCI ACWI (net) (as expressed in AUD from Bloomberg) and as shown in the Bloomberg NDUEACWF screen, and expressed in Australian dollars at the end of day “i” of the Performance Period, and where Index<sub>*0*</sub> is the Benchmark Index at the last day of the previous Performance Period.

Performance Period = The period for each of the half year starting on 1 January and 1 July (or account commencement), and ending on the earlier of (i) the last day of that half year or (ii) the account closing date of the Account.

\* Where the Outperformance is negative at the end of the Performance Period, no Performance Fee is payable for that Performance Period and the absolute value of the negative Outperformance is then added to the portfolio value at the start of the next Performance Period to derive  $F_0$  for the next period, but it is only added to the portfolio value for the purpose of calculating the Performance Fee if any, for any subsequent Performance Period.

## INVESTMENT MANDATE

# Portfolio operation

## 13. PARTIES TO INVESTMENT MANDATE

This is the Investment Mandate between Mason Stevens Limited ABN 91 141 447 207 (Mason Stevens or MDA Operator or Portfolio Manager) and the investor (you), for your investment in the Loftus Peak Global Change Model Portfolio, which Mason Stevens administers subject to the terms of this Investment Mandate.

## 14. ABOUT MASON STEVENS

Mason Stevens is an operation staffed by financial services professionals with extensive experience in direct equities, investment management and private wealth management.

Mason Stevens is responsible for the financial services and functions associated with operating the MDA service.

## 15. YOUR MANAGED DISCRETIONARY ACCOUNT AGREEMENT

Your Managed Discretionary Account Agreement (MDA Agreement) comprises:

- i. a signed Application Form and confirmation you have read the Terms;
- ii. the Mason Stevens Financial Services Guide;
- iii. this Investment Mandate
- iv. your Statement of Advice (if you are a considered to be a retail client).

If there is any inconsistency between the terms of this Investment Mandate and the other terms of your MDA Agreement, the terms of this Investment Mandate will prevail.

## 16. YOUR MANAGED ACCOUNT

References to "your Managed Account" in this mandate include all the investments in your designated holdings in the Model Portfolio (unless otherwise specified).

## 17. PERIOD OF OPERATION OF THE INVESTMENT MANDATE

This agreement remains in force until either party gives a notice of termination to the other of this Investment Mandate, or the Managed Account.

Please note that if we give you notice of changes to the Investment Mandate, your Managed Discretionary Account Agreement continues until you give notice of termination of your Managed Account. Also, if you instruct us to vary your Portfolio from the Model Portfolio, we will treat that as your notice of termination of your Managed Account unless we tell you otherwise.

Subject to your agreement, your Managed Account will be managed in accordance with the terms of this Investment Mandate.

## 18. REPORTING TO YOU

Mason Stevens will report to you on your Managed Account on a regular basis. Reporting will consist of:

- A set of reports available on the Mason Stevens website which provide detailed information including end-of-day valuations, dividends received, cash transactions, realised gains, unrealised gains, income and expense transactions and income receivables.
- A report from the Program Adviser discussing the performance of the Model Portfolio at least once each quarter.
- An Annual Report pack detailing information for completion of accounts and tax returns.

## 19. CONTACT INFORMATION

Please contact your financial adviser if you have any queries or require further information.

Mason Stevens contact details are:

T: 1300 98 88 78  
E: [info@masonstevens.com.au](mailto:info@masonstevens.com.au)  
W: [www.masonstevens.com.au](http://www.masonstevens.com.au)

