



# Reference Guide

ARSN 654 495 468

INVESTMENT MANAGER

Merchant Funds Management  
Pty Ltd

RESPONSIBLE ENTITY

CIP Licensing Limited

ACN 603 558 658

AFSL No. 471728



## About this Reference Guide

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This Reference Guide ("**RG**") has been prepared and issued by CIP Licensing Limited ("**CIPLL**", "**we**" or "**Responsible Entity**"). The information in this document forms part of the Product Disclosure Statement ("**PDS**") for the Merchant Biotech Fund ("**Fund**") dated 08 November 2021. The information provided in this RG is for general information only and does not take into account your individual objectives, financial situation or needs. You should obtain financial and taxation advice tailored to your personal circumstances.

## Updated information

Information in the PDS and this RG is subject to change. Before making an investment in the Fund, you should ensure that you have read the PDS and RG current as at the date of your investment. You can request a copy of the PDS and RG by visiting [www.merchantfunds.com.au](http://www.merchantfunds.com.au) or by calling the investment manager, Merchant Funds Management Pty Ltd ("**Merchant**") on +61 8 6277 0050. A paper copy of the updated information will also be provided free of charge on request.

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# Investing In The Fund

# 1.

## Application cut-off times

If we receive a correctly completed Application Form, identification documents (if applicable) and cleared application money:

- before 2pm (Perth time) on the last Business Day of the month and your application for units is accepted, you will generally receive the Application Price calculated for that Business Month; or
- on or after 2pm (Perth time) on a Business Day and your application for units is accepted, you will receive the Application Price at the end of the next month.

Please see the PDS for information regarding how to apply.

## Application terms

We will only start processing an application if:

- we consider that you have correctly completed the Application Form;
- you have provided us with the relevant identification documents if required; and
- we have received the application money (in cleared funds) stated in your Application Form or a properly executed transfer form in respect to payment by way of property.

## Authorised signatories

You can appoint a person, partnership or company as your authorised signatory. To do so, please nominate them on the Application Form and have them sign the relevant sections. If a company is appointed, the powers extend to any director and officer of the company. If a partnership is appointed, the powers extend to all partners. Such appointments will only be cancelled or changed once we receive written instructions from you to do so.

Once appointed, your authorised signatory has full access to operate your investment account for and on your behalf. This includes the following:

- making additional investments;
- requesting income distribution instructions be changed;
- redeeming all or part of your investment;
- changing bank account details;

and

- enquiring and obtaining copies of the status of your investment.

If you do appoint an authorised signatory:

- you are bound by their acts;
- you release, discharge and indemnify us from and against any losses, liabilities, actions, proceedings, claims and demands arising from instructions received from your authorised signatory; and
- you agree that our acting on any instructions received from your authorised signatory shall amount to complete satisfaction of our obligations, even if these instructions were made without your knowledge or authority.

## Reports

Investors will be provided with the following reports:

- application and redemption confirmation statements;
- transaction statements; and
- (where applicable), distribution and tax statements.

Annual audited financial accounts are available on the Merchant website. Paper copies will not be provided unless requested.

## Redemption cut-off times

A redemption facility will be offered quarterly at an amount deemed appropriate by the Responsible Entity.

In respect to a Redemption Offer the redemption request must be received before 2pm (Perth time) on the last Business Day of the redemption period and you will receive the Unit Price calculated on the last business day of the redemption period.

## Redemption Terms

Once we receive your redemption request, we may act on your instruction without further enquiry if the instruction bears your account number or investor details and your (apparent) signature(s), or your authorised signatory's (apparent) signature(s) or your duly appointed attorney's (apparent) signature(s).

We may contact you to check your details before processing your redemption request but are not obliged to. This may cause a delay in finalising payment of your redemption money. No interest is payable for any delay in finalising payment of your redemption money. We are not responsible or liable if you do not receive, or are late in receiving, any redemption money that is paid according to your instructions.

When you are redeeming, you should take note of the following:

- Redemptions will only be paid to the investor.
- If we cannot satisfactorily identify you as the withdrawing investor, we may reject your redemption request or payment of your redemption proceeds will be delayed. We are not responsible for any loss you consequently suffer.
- As an investor who is withdrawing, you agree that any payment made according to instructions received by post, courier, email or fax, shall be a complete satisfaction of our obligations, despite any fact or circumstances such as the payment being made without your knowledge or authority.
- You agree that if the payment is made according to these terms, you, and any person claiming on your behalf, shall have no claim against us with regards to such payment.

## Redemption restrictions

Under the Corporations Act, you do not have a right to redeem from the Fund if the Fund is illiquid. In such circumstances, you will only be able to redeem your investment if CIPLL makes a redemption offer in accordance with the Corporations Act. CIPLL is not obliged to make such offers. The Fund will be deemed liquid if at least 80% of its assets are liquid assets (generally cash and marketable securities). In addition, we may at any time suspend consideration of redemption requests or defer our obligation to pay redemption proceeds if it is not possible, or not in the best interests of investors or former investors for us to do so, due to circumstances outside our control (such as restricted or suspended trading in a Fund asset).

# Additional Risks of Managed Investment Schemes

## 4.

### Fund risk

As with all managed funds, there are risks that a Fund could terminate or that the fees and expenses could change. There is also a risk that investing in a Fund may give different results than investing directly in the securities.

### Inflation risk

Inflation risk is the risk that returns will not be sufficiently higher than inflation to enable an investor to meet their financial goals.

### Interest rate risk

Changes in official interest rates can directly and indirectly impact on investment returns. Generally, an increase in interest rates has a contractionary effect on the state of the economy and the valuation of securities. For example, rising interest rates can have a negative impact on a company's value as increased borrowing costs may cause earnings to decline. As a result, the company's share price may fall.

### Issuer risk

The value of investments can vary because of changes to an issuer's management, product distribution or business environment.

### Legal risk

There is a risk that laws, including tax laws, might change or become difficult to enforce or comply with.

### Management risk

The Fund is subject to management risk because it is an actively managed investment portfolio. The Investment Manager will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

### Market risk

Changes in legal and economic policy, political events, technology failure, economic cycles, investor sentiment and social climate can all directly or indirectly create an environment that may influence (negatively or positively) the value of your investment in the Fund. In addition, a downward move in the general level of the equity market can have a negative influence on the performance of the Fund.

## Risks of managed investment schemes

### Introduction

The Responsible Entity and the Investment Manager do not guarantee the liquidity of the Fund's investments, repayment of capital or any rate of return or the Fund's investment performance. The value of the Fund's investment will vary. Returns are not guaranteed, and you may lose money by investing in the Fund. The level of returns will vary, and future returns may differ from past returns. The laws on managed investment schemes may change in the future and as such, the structure and administration of the Fund is subject to change.

In addition, we do not offer advice that takes into account your personal financial situation, including advice about whether the Fund is suitable for your circumstances. If you require personal financial or taxation advice, you should contact a licensed financial adviser and/or taxation adviser.

The future performance of the Fund, the level of future distributions, the value of the assets of the Fund and the value of Units may be influenced by any of these risk factors. You should consider these risks and how they may affect your investment.

A summary of these risks is set out below. This summary is not, however, an exhaustive list of the risks associated with an investment in the Fund. You should read this PDS in full, and are encouraged to seek professional advice, before deciding whether to invest in the Fund.

# Additional Risks of Managed Investment Schemes (cont.)

## 4.

### General Risks

#### Economic conditions and world events

Economic conditions, including the level of employment, investment, consumer spending, consumer confidence, inflation, and investment market performance generally, may adversely affect the profitability of the Fund, the value of its assets and the value of Units. The occurrence of major world events such as war and terrorist attacks may also have an adverse effect on the profitability of the Fund, the value of its assets and the value of Units.

#### Changes in law and government policy

Changes in government legislation and policy in those jurisdictions in which the Fund operates (or has investments in) may have an adverse effect on the profitability of the Fund and/or the value of its assets.

#### Legal, tax and regulatory risks

Legal, tax and regulatory change in the Australian investment environment, or otherwise, may occur during the term of the Fund, which could have an adverse effect on the Fund.

#### Reliance on key personnel

The Fund will be managed by the Investment Manager and the Responsible Entity. Investors will not be able to make investment or other decisions regarding the Fund. Accordingly, the success of the Fund will depend on the ability of the Investment Manager, the Responsible Entity and the individuals employed or contracted by the Responsible Entity to source, select, complete, and realize appropriate investments.

The Investment Manager and the Responsible Entity are dependent upon the expertise of their employees in providing advisory services with respect to investments in Australia and overseas. If the services of the Investment Manager, the Responsible Entity or individuals employed or contracted by the Responsible Entity cease, the Fund could be affected adversely.

#### Suspension of trading

Security exchanges typically have the right to suspend or limit trading in any instrument traded on the exchanges. A suspension could render it impossible for the Responsible Entity to liquidate holdings and therefore expose the Fund to losses

### Specific risks of the Fund

#### Gearing

The Fund's Constitution allows the Responsible Entity to borrow up to 20% of the portfolio valuation of the Fund. The leverage from this borrowing facility increases the risk profile of the investment.

#### Management

The success of the Fund will depend upon the ability of the Investment Manager to invest in well-managed companies which have the ability to increase in value over time.

#### Performance Fee

The Performance Fee may create an incentive for the Investment Manager to make investments on behalf of the Fund that would have been riskier or more speculative in the absence of a Performance Fee.

#### Diversification

The portfolio is expected to be less diversified than some other investment funds. This may expose the Fund to a particular asset or risk which will affect the value of the Units.

#### Portfolio Size

The size of the portfolio will affect the risk profile of the Fund. The amount raised will impact on the ability of the Fund to diversify the portfolio.

#### Investee Companies

Some of the companies that the Fund will invest in will have limited trading history or small capital base. This may result in these assets being undervalued for a period of time or result in price volatility.

#### Licensing

The ability of the Responsible Entity to continue to manage the Fund in accordance with this PDS is dependent on the maintenance of the Responsible Entity's AFSL and its continued solvency. Maintenance of the AFSL depends, among other things, on the Responsible Entity continuing to comply with the ASIC imposed licence conditions.

#### Long Term Investment

Investors are strongly advised to regard any investment in the Fund as a long-term proposition and to be aware that, as with any equity investment, substantial fluctuations in the value of their investments may occur.



# Additional Risks of Managed Investment Schemes (cont.)

## 4.

### Redemptions

If a redemption offer is made, the amount of units available to redeem may not be sufficient to allow Unitholders to redeem their entire investment in the Fund.

### Future acquisition risk

The Investment Manager intends to grow the size of the Fund by the acquisition of additional assets. The rate at which the Fund expands will depend on market conditions and the availability of suitable acquisition opportunities. Slower than expected expansion may hinder growth in the value of the Fund and the level of distributions from the Fund.

### Liquidity of investment in the Fund

An investment in the Fund should be considered as illiquid. Whilst the Responsible Entity may decide to make a redemption offer, at the date of this PDS, the Fund is not liquid and Units are not able to be sold like ASXlisted shares.

### Liquidity of underlying investments

The underlying securities of the Fund may not be easily converted into cash at short notice to realize underlying investment positions or to redeem the Fund's investments.

### Stock selection risk

The Investment Manager uses a stock selection process to identify investment opportunities which it believes are most likely to outperform the Fund's benchmark. There is a risk that these selected investments will not perform in line with the Investment Manager's expectations. This risk is mitigated to some extent by the skills and experience of the Investment Manager.

### Portfolio management risk

The Fund is subject to portfolio management risk because it is an actively managed investment fund. The Investment Manager will apply investment process and portfolio risk management, but there is no guarantee that the Fund will successfully outperform its benchmark.

### Pandemic and other unforeseen event risk

Health crises, such as pandemic and epidemic diseases, as well as other catastrophes that interrupt the expected course of events, such as natural disasters, war or civil disturbance, acts of terrorism, power outages and other unforeseeable and external events, and the public response to or fear of such diseases or events, have and may in the future have an adverse effect on the economies and financial markets either in specific countries or worldwide and consequently on the value of the Fund's investments. Further, under such circumstances the operations, including functions such as trading and valuation, of the Investment Manager, the Administrator and other service providers could be reduced, delayed, suspended, or otherwise disrupted.

## DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your investment balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000). You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower fees. Ask the fund or your financial adviser.

## TO FIND OUT MORE

If you would like to find out more or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) Moneysmart website ([www.moneysmart.gov.au](http://www.moneysmart.gov.au)) has a managed funds fee calculator to help you check out different fee options.

## Fees and Costs Summary

This section shows fees and other costs that you may be charged. These fees and costs may be deducted from your money from the returns on investment or from the assets of the managed investment scheme as a whole.

Taxes are set out in another part of this document. You should read all of the information about fees and costs because it is important to understand their impact on your investment.

### Fees when your money moves in or out of the Fund

Type of fee or cost	Amount	How and when paid
<b>Establishment fee:</b> The fee to open your investment.	Nil	Not applicable
<b>Contribution fee:</b> The fee on each amount contributed to your investment	Nil	Not applicable
<b>Redemption fee:</b> The fee on each amount you take out of your investment.	Nil	Not applicable
<b>Exit fee:</b> The fee to close your investment.	Nil	Not applicable

## Management Costs

Type of fee or cost	Amount	How and when paid
<b>Management fee:</b> the fees and costs for managing your investment.	1.485% (including GST) of the gross value of the assets of the Fund	In cash payable monthly in arrears, paid out of the assets of the Fund
<b>Other management costs:</b> the ongoing costs and expenses of operating the Fund (accounting, audit, custodian fees etc.)	Estimated for the year to be approximately 0.25% (exclusive of GST) of funds under management.	<b>In cash as incurred, paid out of the assets of the Fund.</b>
<b>Performance fee:</b> annual fee calculated on the outperformance of the Fund over the benchmark	Is calculated as the increase in the net portfolio value of the Fund over the benchmark, by 20%.	Paid in cash or other assets of the Fund, annually within 3 months of the end of the financial year.

## Switching Fees

Type of fee or cost	Amount	How and when paid
The fee for changing investment options	Nil	Not applicable

## Management fees

The management fees include amounts payable for administering and operating the Fund, investing the assets of the Fund, expenses and reimbursements in relation to the Fund and indirect costs if applicable. Management fees and costs do not include performance fees or transaction costs, which are disclosed separately. The management fees component of management fees and costs of p.a. of the NAV of the Fund is payable to the Responsible Entity of the Fund for managing the assets and overseeing the operations of the Fund. The management fees component is accrued and paid from the Fund monthly in arrears and reflected in the unit price. As at the date of the PDS, the management fees component covers Responsible Entity fees, investment management fees and Investment Manager fees.

## Reimbursement of costs and expenses

Subject to the Corporations Act, under the Constitution the Responsible Entity is entitled to be reimbursed out of the assets of the Fund for all expenses incurred by it in relation to the proper performance of its duties in respect of the Fund. These costs include expenses properly incurred in the administration, custody, management, compliance and promotion of the Fund.

## Transactional and operational costs

In addition to the fees and costs set out in the table, when you invest in the Fund, the Responsible Entity will buy assets, and this may incur transaction costs (e.g. brokerage). If you withdraw from the Fund, assets may need to be sold so that cash can be paid to you and this also incurs transaction costs (e.g. brokerage). The money paid to agents or government as the result of undertaking a transaction underlies the buy-sell spread. A buy-sell spread is an adjustment to the Unit price reflecting the Responsible Entity's estimate of the transaction costs that may be incurred as a result of the purchase or sale of assets arising from the issue or redemption of Units. This adjustment ensures that existing investors do not pay costs associated with other investors acquiring or withdrawing Units.

## Performance fees

The Responsible Entity will be entitled to receive a Performance Fee based on the performance of the Fund against its benchmark. If the Responsible Entity is entitled to a Performance Fee, it will pay 100% of the fee to the Investment Manager under the Investment Management Agreement referred to in Section 6 of the PDS. The Performance Fee will be calculated by multiplying the increase in the net portfolio value of the Fund over the benchmark, by 20%. The benchmark is the amount that would have been returned if the net portfolio value of the Fund had been invested at the Reserve Bank of Australia cash rate plus 5%. If the benchmark is not exceeded, a Performance Fee will not be payable. The Performance Fee will also be subject to a high watermark. This means that the Responsible Entity will only be entitled to the Performance Fee if the net portfolio value of the Fund at the time of calculation of the fee is higher than the net portfolio value used for the purpose of the high watermark. The net portfolio value used for the high watermark is the higher of:

- the net portfolio value of the Fund determined every three years commencing on 08 November 2021; and
- the net portfolio value of the Fund at the beginning of the financial year (1 July):
- plus any application money received for the issue of new Units;
- less funds paid to satisfy redemption requests;
- less any Performance Fee paid in the current year that accrued from a prior year;
- less any funds transferred to the distribution account.

The Performance Fee is calculated and accrued each month and is payable at the end of each financial year after completion of the audit of the Fund. The accrued Performance Fee is deducted from the net portfolio value of the Fund when calculating the Unit price at which Units are redeemed or new Units are issued.

- Net portfolio value at commencement of financial year (the high watermark) \$22,000,000
- Net portfolio value at end of financial year \$24,000,000
- Increase over financial year \$2,000,000
- RBA cash rate 2%
- Benchmark (RBA + 5%) 7%
- Return in excess of benchmark \$460,000
- Performance Fee (20% of excess) \$92,000

## Can the fees change?

Yes, all fees can change without investor consent, subject to the maximum fee amounts set out in the Constitution. The current maximum management fee to which CIPLL is entitled is 1.35% plus GST of the Gross Asset Value (**GAV**) of the Fund. However, CIPLL does not intend to charge that amount and will generally provide investors with at least 30 days' notice of any proposed increase to the management fees component of management fees and costs. In most circumstances, the Constitution defines the maximum level that can be charged for fees described in this PDS. CIPLL has the right to be reimbursed for all reasonable expenses incurred in relation to the proper performance of its duties in managing the Fund and as such these expenses may increase or decrease accordingly, without notice.

This section provides a broad summary of the Australian taxation consequences for Unitholders associated with the ownership of Units in the Fund. It does not constitute individual tax advice to Unitholders.

The Australian taxation consequences for Unitholders will depend upon several factors including:

- whether the Unitholders hold their Units on capital account or whether the units are actively traded or otherwise held on revenue account; and
- the tax residency of the Unitholder.

In particular, this overview does not consider the tax consequences to Unitholders who will hold their Units to trade actively or who otherwise hold their Units on revenue account.

## Disclaimer

The comments contained in this summary are general in nature and the individual circumstances of each Unitholder may affect the taxation implications of the investment of that Unitholder.

The tax consequences outlined below are based on the relevant Australian taxation laws at the date of the PDS, all of which are subject to change. The tax consequences do not take into account or anticipate any changes in law (by legislation or judicial decision). If there is a change, including a change having retrospective effect, the tax consequences would have to be reconsidered in light of the changes.

In addition, this overview is not exhaustive of all income tax considerations that could apply in all circumstances of any given Unitholder. Special additional rules may apply to particular Unitholders, such as insurance companies, superannuation funds and financial institutions.

It is recommended that all Unitholders consult their own independent tax advisers regarding the income tax, capital gains tax and goods and services tax consequences of owning and disposing of Units, having regard to their particular circumstances.

## Assumptions

This summary is based on the following assumptions:

- Unitholders will hold their interest in the Fund on capital account (i.e. Units are held as a passive investment with the intention of generating distribution income and long-term capital growth) and the Units are not actively traded or otherwise held on revenue account;
- it is the intention of the Responsible Entity to distribute all of the Fund's taxable income each year to Unitholders;
- Unitholders will be "presently entitled" to all of the taxable income derived by the Fund and will not be under any legal disability; and
- the Fund will invest in new investments in listed and unlisted securities. The securities will be acquired with the intention of generating distribution income and long-term capital growth.

## Taxation of the Fund

The Fund should be treated as a trust pursuant to provisions contained in the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 (the Tax Act) based on the above assumptions.

Accordingly, the taxable income of the Fund should be subject to tax in the hands of Unitholders on a "flow through" basis and not the Responsible Entity. Amounts taxed in the hands of Unitholders will retain their character from the Fund.

To assist Unitholders with the preparation of their income tax returns, the Fund will, where required, provide an annual distribution and taxation statement. This statement will generally be provided between July and October (subject to the availability of third party information) of each year and include information such as the different components of their distribution and tax withheld (if any).

Certain public unit trusts may be classified as a public trading trust and taxed as companies where they do not carry on an “eligible investment business”. An eligible investment business includes investment in shares in a company, listed or unlisted, or units in a trust. Provided that the Fund invests for these purposes and through investing in listed and unlisted securities, as outlined above, it will not be a public trading trust. The activities of the Fund will need to be monitored on an ongoing basis to ensure it continues to carry on an eligible investment business.

## Trust losses

To the extent tax losses are incurred by the Fund, these losses remain in the Fund and cannot be distributed to Unitholders. Specific tests must be met for the Fund to utilise any prior year losses in later years.

## Investments held by the Fund

Eligible managed investment trusts (MITs) may make an irrevocable election for certain assets of the trust to be dealt with under the capital gains tax provisions, even where gains or losses from the sale of these assets result from trading or would otherwise be on revenue account. Assets eligible for deemed capital account treatment under this election primarily include shares in a company, units in a unit trust, land, and a right or option to acquire any of these assets. The Fund has made this election for deemed capital account treatment. On this basis, gains and losses on the sale of eligible investments should be treated as capital gains or losses.

If in a given financial year the Fund does not meet the definition of an eligible MIT, the capital election will not apply and the gains and losses on the sale of eligible investments will be taxed on revenue account, and therefore not be considered capital gains or losses.

The comments in this reference guide in relation to the application of tax to unitholders have been made on the assumption that the Fund will be an eligible MIT and the capital election will apply. Unitholders should seek their own advice on the alternative.

## Controlled Foreign Company (CFC) provisions

The CFC rules apply to tax Australian shareholders on their share of a controlled foreign company’s ‘tainted income’ as it is earned. If the CFC rules apply, assessable income of the Fund may include unrealised gains and undistributed income from overseas investments.

## Attribution Managed Investment Trust (AMIT) Regime

In May 2016 legislation was passed for the new Attribution Managed Investment Trust (AMIT) tax regime. The AMIT regime applies from 1 July 2016, with early election permitted from 1 July 2015. The AMIT regime is optional and once the choice is made to enter the regime it is irrevocable. The AMIT regime is intended to reduce complexity and provide certainty on industry practices for calculating and allocating income to Unitholders.

The Fund has not made an election to apply the AMIT regime. The Responsible Entity will notify Unitholders if the decision is made to apply the AMIT regime. It is recommended that Unitholders consult their own independent tax advisers in relation to the potential impact of these changes on their tax position if the Fund chooses to apply the new rules.

## Taxation of Australian Resident Unitholders

### Taxation of distributions

Australian resident Unitholders will be liable to tax on their share of the taxable income of the Fund in the year in which the entitlement arises irrespective of whether the distribution is paid in cash, reinvested or otherwise dealt with on behalf of the Unitholder. This is so even if the distribution is not paid to the investor until after the end of the year to which it relates.

Individual Unitholders will generally be subject to Australian tax on distributions at their marginal tax rate plus the Medicare levy. Company and superannuation fund Unitholders will be subject to Australian tax on distributions at their respective tax rates.

### Distribution of income

The Fund may derive distribution, dividend, interest and/or other assessable income.

Dividend income derived in relation to Australian investments will be treated as assessable to Unitholders at their applicable tax rate. Distributions received by Unitholders will be grossed up to the extent the distribution comprises of franked dividends. A franking credit will be available to the Unitholder equal to the amount of the gross up.

### Distribution of capital gains

Where the Fund is considered an eligible MIT and the capital election applies, the disposal of investments will result in either a capital gain or loss.

If the Fund makes a capital gain from the disposal of an investment that has been held for more than 12 months, the Fund should qualify for the general capital gains tax (CGT) discount in calculating its taxable income.

Any capital gain made by the Fund upon disposal of investments will be distributed to Unitholders and will be assessable in the Unitholder's hands. If the CGT discount is applicable to the capital gain derived by the Fund, the Unitholder will be required to gross up the distribution for the discount. This grossed up amount is then offset against any capital losses (prior or current year) to arrive at a net capital gain. The Unitholder may then apply the relevant CGT discount percentage to their net capital gain, depending on their circumstances.

Should the Fund realise an overall capital loss on the disposal of its investments in a particular year, this loss will remain in the Fund and will not be able to be distributed to Unitholders. Provided the relevant tests are satisfied any such loss can be offset against future capital gains derived by the Fund.



## Distribution of tax deferred income

There may be situations where the cash distribution to Unitholders exceeds the taxable amount required to be included in their assessable income. This excess amount is known as “tax deferred” income. This excess is not included in the Unitholder’s taxable income. However, this excess or “non-taxable amount” may give rise to a reduction in the cost base of the Unitholder’s Units in the Fund for CGT purposes. A reduction will not, however, occur where the excess is due to the application of the general CGT discount.

If the cost base of a Unitholder’s units has been reduced to nil as a result of previous tax deferred distributions, any subsequent distributions of tax deferred income will be taxable as capital gains.

## Disposal of Units by Australian resident Unitholders

Where a Unitholder disposes of their Units in the Fund to a third party, they may realise a capital gain or capital loss for tax purposes.

The 50% CGT discount may be applied against an individual’s or trust’s net capital gain provided that the Unitholder has held their Units in the Fund for at least 12 months prior to disposal. Complying superannuation funds should be eligible for a one third discount where they have held their Units in the Fund for at least 12 months prior to disposal. As outlined above, the capital gain is required to be offset against any capital losses prior to applying the CGT discount.

In addition, where tax deferred income has been distributed to Unitholders, the cost base of the Units used in calculating the gain may be reduced by the amount of the tax deferred income.

If a Unitholder realises a capital loss on the disposal of their Units, they may use the capital loss to offset capital gains derived from other sources or it may be carried forward to offset capital gains in future years.

## Taxation of non-resident Unitholders

As the Australian tax treatment for non-resident Unitholders is complex, it is recommended that non-resident Unitholders seek their own taxation advice in relation to their specific circumstances. A general summary of the position for non-residents is, however, set out below.

## Taxation of distributions

Tax is required to be withheld by the Responsible Entity from certain distributions to non-resident Unitholders. The rules regarding the calculation of the amount of tax to be withheld are complex and depend on whether the Unitholder is an individual, company or trustee. Withholding rates for non-residents vary depending on the type of income distributed. The amount of tax to be withheld may also depend on whether the non-resident Unitholder has provided the Responsible Entity with a tax file number (TFN) or Australian business number (ABN).

The Responsible Entity is required to withhold the appropriate amount from the distributions paid to the non-resident Unitholder, and to remit the amount to the Australian Taxation Office.

Non-resident Unitholders may be entitled to claim a credit for the tax withheld by the Responsible Entity. This entitlement depends on the laws of the country in which the non-resident resides and any Double Tax Agreement between Australia and that country.

## Disposal of Units by non-resident Unitholders

Non-resident Unitholders will generally not be subject to Australian tax on capital gains realised on the disposal of their Units in the Fund.

However, non-resident Unitholders may be subject to Australian tax on capital gains realised on the disposal of their Units in the Fund if they and their associates hold, or have the right to hold, 10% or more of the Units in the Fund at the time of the disposal or for a period throughout 12 months that began no earlier than 24 months of the time of the disposal, and the majority of the Fund's assets are attributable to taxable Australian real property.

It is not expected that the Fund will hold taxable Australian real property.

## Other tax implications

### Goods and services tax (GST)

The transactions undertaken by Unitholders, such as the purchase and sale of Units, are financial supplies and should not be subject to GST.

GST may apply to fees and costs incurred by the Fund. The Fund may be entitled to claim reduced input tax credits in respect of some of the fees and costs incurred.

### Tax File Numbers (TFN) and Australian Business Numbers (ABN)

A Unitholder is not required to quote a TFN or ABN when applying for Units. However, if a TFN or ABN is not quoted, or no appropriate TFN exemption information is provided, tax is required to be withheld by the Responsible Entity from any income distribution entitlement at the highest marginal rate plus the Medicare levy (currently 49%). Under the Pay As You Go regime, Unitholders holding their Units as part of a business may quote their ABN instead of their TFN.

The Responsible Entity is required to manage the affairs of the Fund in accordance with the Fund's Constitution and the Corporations Act.

CIP Licensing Limited and its Directors are committed to appropriate corporate governance practices and in providing full disclosure to investors about those corporate governance practices. Set out below is a statement of the main corporate governance bodies that CIP Licensing Limited has in place in its management of the Fund.

The Board of Directors of CIP Licensing Limited has the following members:

**Mr. David French | B Ec. Dip CM**

David French is the Chief Executive Officer. David was responsible for building Capricorn Investment Partners Limited (CIPLL) from scratch. CIP Licensing Limited is a special purpose AFS licencing vehicle which was created as part of a restructure of CIPLL. The business now looks after about \$700 million in investments including those held in two managed investment schemes. David has more than 20 years' experience in finance and economics, most of which have been in investment markets.

He holds a Bachelor of Economics and a Diploma in Corporate Management and has also completed a range of other courses relating to the valuation of companies and investments. David is Treasurer of Home Support Association, a disability services organisation, and a past director of Rockhampton Regional Development Limited and The Rockhampton Chamber of Commerce.

**Mr. Keith Jones | Master of Economic Studies, Bachelor of Arts (Economics – Double Major), Diploma of Financial Planning**

Keith Jones is the founder and CEO at Alteris Financial Group, one of Australia's leading boutique wealth management companies. With extensive experience in private wealth management, Keith's leadership has seen Alteris rise to prominence as a recognised industry leader in lifecycle planning, working with clients in accounting, financial planning, asset management and aged care financial advice.

Keith is widely recognised for his strong relationships with clients and expertise in wealth structuring, investment management, executive remuneration and intergenerational wealth transfer. As head of the firm's Investment Committee, Keith is responsible for overseeing Alteris' high-quality, uniform approach to strategic asset allocation. He is also a Responsible Manager on Alteris' Financial Services License and is a Certified Financial Planner®.

Keith holds a Master of Economic Studies and a Bachelor of Arts with a Double Major in Economics. He has also completed a Diploma of Financial Planning. Keith's expert views are regularly sought by media outlets and the financial services industry, and he was a regular panellist on Sky News Business before the channel was closed.

**Mrs. Kate Golder | Bachelor of Commerce, Bachelor of Arts, Graduate Diploma of Financial Planning**

Kate is a Certified Financial Planner® and has been in the financial planning and wealth management industry since 2000. Kate is an Executive Director and Head of Risk and Compliance at Alteris Financial Group and is a Responsible Manager on Alteris' Financial Services License.

Kate is passionate about helping her clients achieve their financial and life goals. She provides personalised and expert advice to a broad range of clients including small business owners, sophisticated investors, business professionals and retirees. Her vast experience and know-how allows Kate to work with her clients on all aspects of their personal or business portfolios. Kate is known for her unparalleled knowledge and expertise in all facets of wealth management and financial planning.

Holding a Bachelor of Commerce and a Bachelor of Arts from the University of Queensland, Kate has also completed a Graduate Diploma in Financial Planning. Kate is a member of the Financial Planning Association and the SMSF Professionals Association of Australia. Kate has a strong reputation for her specialised skills and was a regular panellist on Sky News Business before the channel was closed. For the last three years, Kate has been named one of Australia's Top Financial Advisers in the list compiled annually by The Australian newspaper and US financial investment publication Barron's.

**Mr. Donald O'Brien | Bachelor of Business (Accounting), Master of Taxation**

With more than 40 years professional services experience, Don joined Alteris as Head of Accounting.

He is an experienced corporate tax adviser who has built teams and practices over many years. Don has been a partner at KPMG, RSM and Grant Thornton, and in each of these roles, held senior leadership positions.

Over his career, he built and led tax teams and has wide experience in advising on inbound and outbound investments to a range of multi-national clients in industries such as property and construction, manufacturing, retail and communication. For more than 5 years, he was on the International Tax Committee of a world-wide accounting firm.

Senior management of CIP Licensing Limited, involved in the operations of the Fund include:

**Mr. David French** | Chief Executive Officer, CIP Licensing Limited, Responsible Manager

See details above.

**Mr. Owen Evans** | BA (Hons), MSc(Econ), External - Responsible Manager

Owen Evans is an experienced investment professional with almost 30 years' experience in research, valuation and funds management. He has been rated number one analyst for building materials, construction and emerging companies while at UBS Australia and judged Money Management Fund Manager of the Year in 2005 and 2006 as Chief Investment officer at MIR Australia. Between 1997 and 2010, Mr Evans was sole analyst on the IPO's of Bristle, AWB, Transfield Services, Worley Parsons and NRW. He is currently principal of Yaz Investment Pty Ltd, and provides consulting services for mid-sized Australian Companies such as Adelaide Brighton, Brickworks Ltd, Calibre Global and Dulux. He also provides investment consulting advice for global fund managers. Mr Evans is currently non-Executive President of the Manly Warringah Basketball Association.

**Mr. Ben Perfect** | LLB, Compliance Manager, CIP Licensing Limited

Ben holds a Bachelor of Laws from James Cook University and has 10 years' experience in the legal industry. His 7 years' experience in a regional general practice law firm provided excellent grounding in commercial law, property law, wills and estates, litigation and criminal law. Ben's experience in the legal industry paired with his knowledge of the financial services industry brings a depth and understanding to ensuring the compliance requirements of The Investment Collective and its clients are met.

Senior management of Merchant Funds Management Pty Ltd, the Investment Manager, are:

**Investment Manager - Merchant Funds Management Pty Ltd**

**Mr. Andrew Chapman | Fund Manager**

The Investment Manager of the Fund is Merchant Funds Management Pty Ltd (Merchant or Investment Manager).

Post a 15-year career in stockbroking, Merchant Group Pty Ltd and Merchant Funds Management Pty Ltd was established by Andrew Chapman and three partners in November 2011. With offices in Perth and Melbourne, Merchant has grown considerably since inception based on word of mouth and a combination of results and service to its exclusive client base. The current range of services offered by Merchant covers:

- funds management (Merchant Opportunities Fund);
- share trading;
- self-managed superannuation funds administration service;
- financial planning;

and

- corporate advice and strategy execution.

As at the date of this PDS, the Merchant Group is responsible for maintaining and managing assets of more than \$400 million. Merchant Funds Management Pty Ltd is responsible for:

- investing the Fund's assets;
- maintaining the Fund's investment portfolio;
- day-to-day administration of the Fund;
- annual Fund taxation requirements;
- dealing with Unitholder queries; and
- audit and accounting for the Fund

## Compliance Committee

The compliance committee will monitor the Responsible Entity's compliance against its Compliance Plan and ensure that the Compliance Plan keeps abreast of best industry practice and regulatory requirements.

The compliance committee includes two members external to CIP Licensing Limited, and the compliance manager of CIP Licensing Limited.

The compliance committee members are:

**Ben Perfect** | Compliance Manager, CIP Licensing Limited

See details above.

**Ian Mill** | Dep Hlth Serv Fac Man, MAICD - External Member

Ian Mill is currently Chief Executive Officer of Rockhampton Jockey Club. Ian was previously the Chief Executive Officer of Beef Australia. He has completed the Australian Institute of Company Directors course and holds a Diploma in Health Services Facility Management. Ian has extensive experience in the Health Services Sector leaving his position as CEO of Mercy Health and Aged Care in 2017, a position held for 20 years. Ian has immersed himself in the finance industry where he held the position of Deputy Chair of The Capricornian. Having been on the board for 9 years, Ian developed an understanding of regulatory compliance regimes in the financial services sector. Ian has recently accepted reappointed to Capricornian board. Ian undertook professional development to stay abreast of industry trends whilst in this role. Ian has been heavily involved in various community based, economic development and non-for-profit boards for over a decade. Ian was the inaugural Chair of the Australian Institute of Company Directors Central Queensland Committee, a position he held for 3 years.

**Mr. Mark Wyer** | BET Civil, BBus Mrkt, MEPR Civil, MAICD - External Member

Mark's skill set harmonises senior leadership and board level experience in multi-national and state organisations respectively across risk, strategy and professional service settings. Mark has worked as a professional engineer for the past 17 years; this experience has provided Mark with a strong business acumen and the skills to deliver results through leading and engaging people and managing change and obstacles. Mark is currently working as the Lead of Queensland's Urban Development and Water Resources business lines within Calibre's Urban Development and Infrastructure Sector. He is currently a Non-Executive Director of Surf Life Saving Queensland (SLSQ) and is Chairman of the SLSQ State Major Facilities Committee and a member of the SLSQ Governance Committee. Mark holds a Bachelor of Engineering Technology, Bachelor of Business, Masters of Engineering Practice and is a graduate of the Company Directors Course. He is also a Chartered Professional Engineer (Australia) and a Registered Professional Engineer (Queensland).

## The Constitution

The Fund is governed by a Constitution that sets out the Fund's operation. The Constitution, together with the Fund's PDS, the Corporations Act and other laws regulate the Fund's legal relationship with investors in the Fund. The Constitution is the primary document governing the relationship between the Unitholders and the Responsible Entity, and the primary document setting out the terms and conditions of the Units. The Constitution is legally enforceable between the Unitholders and the Responsible Entity, and the Unitholders agree to be bound by its terms upon investment in the Fund. Please read the Constitution carefully before investing in the Fund. The Responsible Entity can amend the Constitution if the change does not adversely affect the rights of Unitholders. Otherwise, the change must be approved by a special resolution passed by Unitholders at a general meeting.

## Anti-Money Laundering and Counter Terrorism Financing ("AML/CTF")

Australia's AML/CTF laws require CIPLL to adopt and maintain a written AML/CTF Program. A fundamental part of the AML/CTF Program is that CIPLL must hold up-to-date information about investors (including beneficial owner information) in each Fund. To meet this legal requirement, we need to collect certain identification information (including beneficial owner information) and documentation ("KYC Documents") from new investors. Existing investors may also be asked to provide KYC Documents as part of an ongoing customer due diligence/verification process to comply with AML/CTF laws. If applicants or investors do not provide the applicable KYC Documents when requested, CIPLL may be unable to process an application, or may be unable to provide products or services to existing investors until such time as the information is provided. In order to comply with AML/CTF Laws, CIPLL may also disclose information including your personal information that it holds about the applicant, an investor, or any beneficial owner, to its related bodies corporate or service providers, or relevant regulators of AML/CTF Laws (whether inside or outside Australia). CIPLL may be prohibited by law from informing applicants or investors that such reporting has occurred. CIPLL shall not be liable to applicants or investors for any loss you may suffer because of compliance with the AML/CTF laws.

## Foreign Account Tax Compliance Act ("FATCA")

In April 2014, the Australian Government signed an intergovernmental agreement ("IGA") with the United States of America ("U.S."), which requires all Australian financial institutions to comply with the FATCA Act enacted by the U.S. in 2010.

Under FATCA, Australian financial institutions are required to collect and review their information to identify U.S. residents and U.S. controlling persons that invest in assets through non-U.S. entities. This information is reported to the Australian Taxation Office ("**ATO**"). The ATO may then pass that information onto the U.S. Internal Revenue Service.

In order to comply with the FATCA obligations, we may request certain information from you. Failure to comply with FATCA obligations may result in the Fund, to the extent relevant, being subject to a 30% withholding tax on payment of U.S. income or gross proceeds from the sale of certain U.S. investments. If the Fund suffers any amount of FATCA withholding and is unable to obtain a refund for the amounts withheld, we will not be required to compensate investors for any such withholding and the effect of the amounts withheld will be reflected in the returns of the Fund.



## Common Reporting Standard (“CRS”)

The CRS is developed by the Organisation of Economic Co-operation and Development and requires certain financial institutions resident in a participating jurisdiction to document and identify reportable accounts and implement due diligence procedures. These financial institutions will also be required to report certain information on reportable accounts to their relevant local tax authorities.

Australia signed the CRS Multilateral Competent Authority Agreement and has enacted provisions within the domestic tax legislation to implement CRS in Australia. Australian financial institutions need to document and identify reportable accounts, implement due diligence procedures and report certain information with respect to reportable accounts to the ATO. The ATO may then exchange this information with foreign tax authorities in the relevant signatory countries.

In order to comply with the CRS obligations, we may request certain information from you. Unlike FATCA, there is no withholding tax that is applicable under CRS.

## Contact Us

If you have queries in respect to your investment in the Fund, please contact:

Merchant Funds Management Pty Ltd

Post: PO Box 883  
NEDLANDS, WA 6909

Email: [info@mechantgroup.com.au](mailto:info@mechantgroup.com.au)

Phone: 08 6277 0050

## Glossary

**ATO** Australian Taxation Office.

**AUSTRAC** Australian Transaction Reports and Analysis Centre.

**Business Day** A day other than a Saturday or Sunday on which banks are open for general banking business in Perth.

**Business Month** means a calendar month ending on the last business day of the month.

**Corporations Act** The Corporations Act 2001 (Cth) and Corporations Regulations 2001 (Cth) and as amended from time to time.

**Fund** means Merchant Biotech Fund.

**FATCA** US Foreign Account Tax Compliance Act GST Goods and Services Tax.

**NAV** Net Asset Value. The value of the assets of the Fund less the value of the liabilities of the Fund.

**Responsible Entity** means CIP Licensing Limited (ACN 603 558 658).

**Unitholders** means investors who hold units in the Fund.

**US Person** A person so classified under securities or tax law in the United States of America ("US") including, in broad terms, the following persons:

- a) any citizen of, or natural person resident in, the US, its territories or possessions; or
- b) any corporation or partnership organised or incorporated under any laws of or in the US or of any other jurisdiction if formed by a US Person (other than by accredited investors who are not natural persons, estates or trusts) principally for the purpose of investing in securities not registered under the US Securities Act of 1933; or
- c) any agency or branch of a foreign entity located in the US; or
- d) a pension plan primarily for US employees of a US Person; or
- e) a US collective investment vehicle unless not offered to US Persons; or
- f) any estate of which an executor or administrator is a US Person (unless an executor or administrator of the estate who is not a US Person has sole or substantial investment discretion over the assets of the estate and such estate is governed by non-US law) and all the estate income is non-US income not liable to US income tax; or
- g) any trust of which any trustee is a US Person (unless a trustee who is a professional fiduciary is a US Person and a trustee who is not a US Person has sole or substantial investment discretion over the assets of the trust and no beneficiary (or settlor, if the trust is revocable) of the trust is a US Person); or
- h) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US Person; or
- i) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the US for the benefit or account of a US Person.

Reference  
Guide

ARSN 654 495 468

INVESTMENT MANAGER

Merchant Funds Management  
Pty Ltd

RESPONSIBLE ENTITY

CIP Licensing Limited

ACN 603 558 658

AFSL No. 471728