

# Theta Capital Growth Fund

ARSN 120 328 823

Issued 20 September 2011

Product Disclosure Statement



## Important Information

This PDS contains a summary of significant information in relation to the Theta Capital Growth Fund ARSN 120 328 823 (the Fund). It also includes references to additional information contained in the document titled 'Additional PDS Disclosures' that can be obtained at no cost by calling Australian Mutual Holdings Limited (Phone: 02 9241 7959) or by downloading it from the website [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta). You should read both the PDS and the Additional PDS Disclosures before making a decision about whether to invest in the Fund.

The information provided in this PDS and the Additional PDS Disclosures is general in nature and does not take into account any investor's personal financial situation or needs. Investors should seek independent financial advice tailored to their own needs before making a decision about whether to invest in the Fund.

## Updated information

Information in this PDS is subject to change from time to time and may be updated by us if it is not materially adverse to you. Updated information can be obtained at any time from the website [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta). Also, a paper copy of updated information may be provided to you free of charge upon request by contacting Australian Mutual Holdings Limited as per details provided above.

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## 1. About Australian Mutual Holdings Limited

Australian Mutual Holdings Limited (AMH) holds an Australian Financial Services Licence (no. 295 393) which authorises it to act as responsible entity for Theta Capital Growth Fund (the Fund). AMH's role is to ensure the operation of the Fund in accordance with the Fund's constitution and the Corporations Act. AMH has three directors. They are: Matthew Barnett, Andrew Baxter and Jeff Worboys.

### 1.1 About the Investment Manager

AMH has appointed Theta Capital Investments Pty Limited (Investment Manager) as the investment manager for the Fund. The Investment Manager's role is to manage the Fund's investments.

The two directors of the Investment Manager are both highly experienced professionals. Jon Cox has had more than 10 years investment market experience in the worldwide derivatives markets. He is the author of the Theta daily 'Derivative Index Trading Report'.

Paul Ainsworth has 20 years management experience having obtained an MBA (Executive) from the Australian Graduate School of Management and also has derivative trading experience.

## 2. How the Fund works

**Unit prices will be displayed daily on AMH's website – [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta)**

**For a copy of AMH's unit pricing policy please contact AMH or you may download a copy from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta)**

### 2.1 Managed investments generally

When you invest your money in a managed investment scheme, your money is pooled together with other people's money. This pool of money is used to buy and sell investments on behalf of all investors in the Fund. This means that, through the Fund, you may have access to certain investments that you would not otherwise be able to access, your transaction costs may be reduced because we are able to secure lower fees due to the economies of scale gained by investing through the Fund, and you have access to the knowledge of our skilled asset managers.

### 2.2 The Fund

The Fund is structured as a unit trust. This means that as an investor you have a fixed beneficial interest in the assets of the Fund calculated as the proportion your unit holding bears to all of the units in the Fund which have been issued. You do not however have a right to demand any particular assets of the Fund be transferred to you.

The unit price of your units is determined on the first Business Day of each month. Fundamentally, the price is determined by dividing the total value of the Fund's assets (after deducting any liabilities) by the number of units on issue. Movement in the unit price is therefore dictated by movements in the value of the Fund's investments. When buying or selling units the final unit price you pay or receive is adjusted on account of the buy-sell spread. The buy-sell spread is an adjustment which takes into account any buying and selling costs associated with the underlying assets of the Fund (e.g. brokerage).

### 2.3 Minimum investment

The minimum investment you may make in the Fund is \$10,000; however once you have established a minimum investment balance you may add to your investment in amounts less than \$10,000. When making your initial application you must complete an application form which can be found on our website – [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta), See Section 8 on how to apply. AMH reserves the right to accept or reject applications for units.

## 2.4 Applications and withdrawals

**You should read the important information about applications, withdrawals and distributions before making a decision. Go to the 'Additional PDS Disclosure' available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta); in particular Section 1 titled 'How the Fund works'.**

**The material relating to 'Applications, withdrawal and distributions' may change between the time when you read this PDS and the day when you sign the Application Form.**

You can increase your investment at any time by making an application for additional units in the Fund. Whenever the Fund is liquid (as defined in the Corporations Act), you can make withdrawal requests for all or part of your investment in accordance with the Constitution. Applications will generally be processed by us at the end of each month. Withdrawals will generally be processed at the end of each March, June, September and December, however in some circumstances (such as a freeze on withdrawals or if we receive withdrawal applications for more than 25% of the Fund's assets), then you may have to wait a period of time before you can reduce your investment.

If we receive requests for withdrawals on a redemption date of a value in excess of 25% of the Fund, then we may (at our discretion) reduce each request pro rata so that no more than 5% of the investments in the Fund are withdrawn at any one time. If this occurs, then the remainder of your withdrawal request will be held over to the next redemption date.

If the Fund is illiquid (as defined in the Corporations Act), then you will only be able to withdraw your investment by accepting a periodic withdrawal offer made by us to all investors. Under the Corporations Act the Fund is illiquid if less than 80 percent of its assets can reasonably be considered liquid (listed securities and cash are liquid assets). At the date of this PDS the Fund is liquid and we believe the Fund will continue to be liquid. If the Fund becomes illiquid, then we will notify you in writing.

## 2.5 Income distributions

All income to which you are entitled will be automatically reinvested into the Fund unless you give us written notice that your entitlement, or any part of that entitlement, is to be paid to you. No buy-sell spread applies to units issued as a result of reinvestment of your income entitlement.

Your entitlement to income is calculated based on your unit holding as at 30 June in each year and on the winding up of the Fund. Income (if any) to which you are entitled will be paid to you within the following 60 days.

Your entitlement to distributable income is calculated by determining the income of the Fund for that period after allowing for all expenses incurred by the Fund; and dividing the distributable income for that period by the number of units on issue on that day to determine the income per unit; and multiplying the income per unit by the number of units you hold.

## 3. Benefits of investing in the Fund

**You should read the important information about the Fund before making a decision. Go to the 'Additional PDS Disclosure' available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta); in particular Section 2 titled 'About the Fund'.**

**The material relating to 'About the Fund' may change between the time when you read this PDS and the day when you sign the Application Form.**

### 3.1 Significant features

The Fund invests predominantly in a diverse portfolio of international index based derivatives. It does this primarily by investing in indices that reflect a diverse portfolio of companies from different sectors. Despite the Fund's primary focus being on index based derivatives, the Investment Manager may also invest in a wide variety of asset classes including Australian and international listed securities, futures contracts, equities, exchange traded options, spot foreign exchange and contracts for difference.

By using a robust trading strategy, the Fund's aim is to deliver profits not only during a steady or trending market (either up or down) but also during times of extreme volatility and a turning market.

### 3.2 Significant benefits

Investment in the Fund offers the following significant benefits:

- (a) Access to a diverse investment portfolio consisting predominantly of index based derivatives.
- (b) Access to the experience of the Investment Manager to manage the Fund's investments.
- (c) A fee structure which is aligned to investors because it incorporates a significant performance based component (see Section 6).

## 4. Risks of managed investment schemes

**You should read the important information about risk of managed investment schemes before making a decision. Go to the 'Additional PDS Disclosure' available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta); in particular Section 3 titled 'Risks of managed investment schemes'.**

**The material relating to risks of investing may change between the time when you read this PDS and the day when you sign the Application Form.**

All investments have some level of risk. Managed investment schemes invest in a range of asset classes, for example, cash, bonds, equities and property, each of which offer different levels of risk. The likely investment return and the level of risk of losing money differ among managed investment schemes depending on the underlying mix of assets. Typically, those assets with potentially the highest return (such as derivatives) also have the highest risk of losing money over the short term.

When considering investing in any managed investment scheme, it is important to understand that —

- (a) the value of your investment will go up and down
- (b) returns are not guaranteed
- (c) you may lose some or all of your money
- (d) previous returns are not an accurate predictor of future performance
- (e) laws affecting your investment in a managed investment scheme may change, and
- (f) the appropriate level of risk for you will depend on your age, investment time frame, where other parts of your wealth are invested and how tolerant you are to the possibility of losing some of your money in some years.

### **The significant risks of an investment in the Fund are set out below:**

- (a) **Market risk.** The prices of investments may fluctuate for a variety of reasons including changes in economic conditions, market sentiment, government regulations, political events, natural disasters and changes in technology. The effects on the value of each underlying investment will vary and can not be predicted with certainty.
- (b) **Investment specific risk.** The price of a specific investment of the Fund may be affected by market risk (above) but also factors which are specific to that investment. For example, a direct or indirect investment in the shares of a particular company can be affected by unexpected changes to the operations and performance of the company.

- (c) **Redemption risk.** We expect the Fund will be liquid which means you are able to send withdrawal requests to us to be processed within 14 days of the end of each Quarter. However, if withdrawal requests are received that exceed 25% of the value of the Fund, then we may (at our discretion) reduce each request on a pro rata basis so that only units equal to 5% of the value of the Fund are redeemed. If this occurs, then your withdrawal request will be automatically held over in respect of the remaining balance and will apply at the next redemption. There is therefore a risk you may not be able to access all of your money when you make a withdrawal request.
- (d) **Investment manager risk.** An important issue that you must consider is the competency of the Investment Manager. An investment in the Fund is an indication that you believe that the Investment Manager is capable of making decisions that are in the best interests of the Fund.
- (e) **Derivatives trading.** Futures contracts, options on futures contracts, options on securities, and contracts for difference are referred to as 'derivatives'. A derivative is an instrument whose price movement is based on the movement in an underlying asset or index. Typically, movements in the price of the derivative compared to the underlying reference are magnified. This means there can be a kind of 'built in leverage' associated with trading in derivatives. This increases the potential for profit in the Fund, but also increases the potential losses.
- (f) **Short selling.** The Fund might sell an investment 'short' when the Investment Manager believes the price of a particular investment (e.g. a company's share price) will fall. Selling 'short' involves more risk than buying the underlying security because when you sell short you will lose money as the price moves higher. Because there is theoretically no limit to how high the price might go, your losses are unlimited. This is in contrast to going 'long' and buying a security, because the maximum amount you can lose is your initial investment.
- (g) **Jurisdictional risk.** The Fund can trade in assets located in overseas jurisdictions. This means the assets of the Fund are influenced by movements in exchange rates and interest rates, international political events and the potential for overseas regulations to be less robust than in Australia.
- (h) **Currency risk.** If the Fund buys assets in overseas jurisdictions, then movements in the exchange rate of the Australian dollar relative to other currencies can have a positive or negative impact on the value of the Fund's investments when converted to Australian dollars. The Fund does not typically hedge its currency risk which means movements in the exchange rates can amplify the performance (both positive and negative) of the Fund.

- (i) Gearing risk. The use of a margin lending facility allows the Fund to leverage its investments, since the money received from borrowings can be invested by the Fund. This increases the potential for profit in the Fund, but also increases the potential losses.
- (j) Counterparty risk. This is the risk of loss due to the failure of another party to a contract (the counterparty) to meet its obligations. Counterparty risk arises primarily from investments in derivatives and currency transactions. Substantial losses can be incurred if a counterparty fails to deliver on its contractual obligations.
- (k) Liquidity risk. The Fund may invest in unlisted securities which are not liquid assets. That is, unlike listed securities they may not be able to be converted into cash within a short period of time. It is also possible that assets usually considered 'liquid' may be illiquid for a period. For example, if market conditions make it difficult or impossible to liquidate positions.

## 5. How we invest your money

**You should read the important information about how we invest your money before making a decision. Go to the 'Additional PDS Disclosure' available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta); in particular Section 4 titled 'How we invest your money'.**

**The material relating to how your money is invested and the Investment Manager's philosophy may change between the time when you read this PDS and the day when you sign the Application Form.**

You should consider the likely investment return, the risk and your investment timeframe when choosing any investment in the Fund.

The Fund will attempt to achieve capital appreciation by adopting a non-directional strategy by using a combination of both fundamental and technical market analysis. There are no restrictions on the type of securities, commodities, currencies or markets in which the Fund may trade.

Although the Fund has a wide investment mandate, it is designed to provide long-term capital growth through investment primarily in options referenced to global stock market indices. It is not a suitable short-term investment.

The Fund may also use spot foreign exchange contracts (foreign exchange) and other derivatives such as futures contracts, options on futures contracts, exchange-traded options and contracts for difference. In particular the trading strategy may include equities in companies listed or expected to list on the Australian and international exchanges.

In managing the Fund, the Investment Manager will employ strategies developed by the Investment Manager's team. The trading methods utilised are proprietary and confidential, and rely on a combination of fundamental or technical analysis.

Theta Capital Growth Fund	
Investment return objective	The objective of the Fund is to achieve long term capital growth.
Mix of assets classes <sup>1</sup>	Options for Australian equities and indices – 1% to 20% Options for International equities and indices – 60% to 90% Other derivatives – 5% Cash – 5% to 30%
Minimum suggested time frame	Five years.
Summary risk level	High.  There is a risk investors may lose some or all of their capital. Expected to produce higher returns over the long term.

1. The primary assets classes are listed but it does not prohibit the Fund investing in other asset classes which are not listed where the Investment Manager believes it is appropriate and in the best interests' of investors.

The trading strategies, investment asset classes and systems utilised by the Fund may be revised significantly from time to time without notice to you as a result of ongoing research and development. If there are significant and material changes to the investment strategy or asset mix we will notify you via our normal investor communication.

## 6. Fees and costs

### 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 fund 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 excluding GST)

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 contribution fees and management costs where applicable. 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) website ([www.moneysmart.gov.au](http://www.moneysmart.gov.au)) has a managed investment fee calculator to help you check out different fee options.

The table below shows fees and other costs that you may be charged. These fees and costs may be deducted from the money you invest, from the returns on your investment or from the Fund's assets as a whole. The fees set out in the table below show the effect of GST (i.e., inclusive of 10% GST). To the extent input tax credits may be claimed, then the fee may be lower. You should read all the information about fees and costs as it is important to understand their impact on your investment.

Type of fee or cost	Amount
<b>Fees when your money moves in or out of the Fund</b>	
<b>Establishment fee.</b>	Nil
<b>Contribution fee.</b>	Nil
<b>Withdrawal fee.</b>	Nil
<b>Termination fee.</b>	Nil
<b>Management costs</b>	
<b>The fees and costs of managing your investment.</b> At the date of this PDS the fees and costs of managing your investment are as set out in the right hand column.	A management fee of 2.2% (including GST) of the gross asset value of the Fund plus a performance fee of 22% (including GST) of the increase in the net asset value of the Fund (See Section 6.1 below).

### 6.1 Management fees

You should read the important information about fees and costs before making a decision. Go to the 'Additional PDS Disclosure' available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta); in particular Section 5 titled 'Fees and costs'.

The material relating to fees and costs may change between the time when you read this PDS and the day when you sign the Application Form.

The management fee is the fee we charge to manage and oversee the operation of the Fund.

A performance fee is calculated as 22% (including GST) of the positive amount by which the net asset value of the Fund at the end of the Quarter exceeds the net asset value of the Fund at the beginning of the Quarter (after all costs and fees have been paid for the Quarter).

Some funds use a concept of a 'high water mark'. Typically this means any prior underperformance of the Fund must be recovered before any performance fees are payable in the future. We believe that type of system encourages investment managers who might underperform in a period to trade more aggressively in subsequent periods in an attempt to recoup prior losses. That is, we believe using a 'high water mark' type of fee structure it encourages excessive risk taking which is not in the long term interests of investors.

We are responsible for paying the Investment Manager's fees from the fees we collect from the Fund.

### 6.2 Buy-sell spread

The Fund's buy/sell spread will be up to 0.3%. The buy/sell spread reflects our estimate of the transaction costs expected to be incurred in buying and selling underlying financial products as a result of investments in, and withdrawals from, the Fund. These include fees such as brokerage fees charged by brokers the Investment Manager uses to execute its trades. The purpose of the buy/sell spread is to ensure those investors transacting in the Fund's units at a particular time bear the costs of buying and selling the Fund's assets as a consequence of their transaction. The buy/sell spread is an additional cost to investors but it is not a fee paid to any party, but is instead retained as assets of the Fund. We may vary the buy/sell spread based on our assessment of the likely costs which might be incurred from time to time and while we will endeavour to keep investors updated, the changes may be made without notice to you.

### 6.3 Changes to fees

The fees payable can change without your consent. We will give you at least 30 days' written notice of any change to the fees payable.

## 6.4 Fees paid to a financial adviser

If you have a financial adviser, then you may also have to pay other fees to your adviser. Details of those fees should be set out in the Statement of Advice given to you by your adviser.

## 6.5 Example

This table gives an example of how the fees and costs for this Fund can affect your investment over a one-year period. You should use this table to compare this product with other managed investment products.

Example		
Balance of 50,000 with a contribution of \$5,000 during the year		
<b>Contribution fee</b>	Nil	
<b>Plus Management costs</b>	2.2% (including GST) per annum on gross assets of the Fund	For every \$50,000 you have invested in the Fund you will be charged \$1,100 per year.
<b>Equals Cost of the Fund</b>		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you will be charged fees from: \$1,100.00 to \$1,210.00 (depending on the time during the year when you make the additional contribution). Additional charges will depend on the performance of the fund, the transaction costs of the year (the buy/sell spread) and any advisor service fee you negotiate with your financial adviser. <sup>2</sup>

2. This example assumes no performance fee is payable (see Section 6.1). Nor does the example take into account the buy-sell spread (see Section 6.2). For example, for every \$5,000 you contribute you could be charged \$15.00 as a buy/sell spread.

## 7. How managed investment schemes are taxed

Your investment in a managed investment scheme is likely to have tax consequences, which in general will occur on an annual basis even if you do not change your investment. The Fund will typically distribute all its taxable income each year so the Fund is not required to pay tax. As a member you will be assessed for your share of any tax on any income and capital gains generated by the Fund. In normal circumstances, you should expect that some income and/or capital gains will be generated each year. The Fund will not pay tax on behalf of members of the Fund. As tax matters for managed investment schemes are complicated, you are strongly advised to seek your own professional tax advice.

## 8. How to apply

- Read this PDS and the 'Additional PDS Disclosure' which is available at [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta) or by calling 02 9241 7959.
- Complete the *application for membership* form available from [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta) or by calling 02 9241 7959.
- You can then start to make regular and/or ad hoc payments into your account.

A 14-day cooling-off period applies to your investment. Your cooling-off period commences on the earlier of –

- the date you receive confirmation of your transaction, and
- the end of the fifth day after we issue your units to you.

If you notify us of your wish to withdraw your investment in writing during your cooling-off period, then we will return your money to you and no fees will apply. However, if your units have already been issued to you, then they will be redeemed at the unit price on the day of the redemption which may be different (higher or lower) to the price at which they were issued. There may also be some tax consequences which arose during the holding period (however brief).

## Complaints

If you feel we are not dealing with you as you would like, you can make a complaint to us by calling 02 9241 7959 and we will attempt to resolve your complaint. We are a member of the Financial Ombudsman Service. If you are not satisfied with our response to your complaint, then you may wish to pursue the matter further with the Financial Ombudsman Service, which can be contacted toll free on 1300 780 808 or you can visit its website at [www.fos.org.au](http://www.fos.org.au) for further information.

## 9. Additional information

### 9.1 Related party transactions and conflicts of interest

In our position as responsible entity of the Fund we may from time to time face conflicts between our duties to the Fund, our duties to other funds we manage and our own interests. We will manage any conflicts in accordance with our conflicts of interest policy, the constitution of the Fund, ASIC policy and the law.

The Investment Manager of the Fund may use Halifax Investment Services Limited ACN 096 980 522 (Halifax), a related party of AMH, to perform broking services on behalf of the Fund for which Halifax is paid a fee which it retains for its own benefit. There is no obligation on the Investment Manager to use Halifax, but to the extent it does, those arrangements are negotiated at arms' length between the parties. AMH is related to Halifax because they each share common directors and shareholders.

We may from time-to-time enter into other transactions with other related entities. All transactions will be effected at market rates or at no charge, and in accordance with the Corporations Act.

### 9.2 Additional information

If the Fund is a disclosing entity, as provided in the Corporations Act, it will be subject to reporting and disclosure obligations, including the requirement to lodge copies of disclosure notices with ASIC as required by the Corporations Act. Copies of financial reports and continuous disclosure notices may also be obtained from, or inspected at any ASIC office, or on request.

### 9.3 Glossary

The following terms in this PDS have the meanings set out below:

**Application Form** – an application form for the Fund which is available on our website – [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta)

**ASIC** – The Australian Securities and Investments Commission.

**Business Day** – A day on which banks are open for business in Sydney, excluding Saturday, Sunday or public holidays.

**Corporations Act** – The Corporations Act (2001) Cth.

**Distribution Period** – Means each 12 month period ending on 30 June each year.

**Fund** – The Theta Capital Growth Fund ARSN 120 328 823.

**Investment Manager** – Theta Capital Investments Pty Limited ACN 128 425 418.

**PDS** – this product disclosure statement.

**Quarter** – The three month period (approximately) up to and including the last Friday in the months of March, June, September, and December and if that day is a public holiday in Sydney, then the previous Business Day.

**Responsible Entity** – Australian Mutual Holdings Limited ACN 115 182 137.

**we, us and our** – Australian Mutual Holdings Limited ACN 115 182 137.

# Theta Capital Growth Fund

ARSN 120 328 823

Issued 20 September 2011

Additional PDS Disclosure



## Purpose of this document

Australian Mutual Holdings Limited (we, us and our) is the responsible entity of the Theta Capital Growth Fund ARSN 120 328 823 (the Fund). We have issued a product disclosure statement (PDS) in respect of the Fund pursuant to Subdivision 4.2C of Division 4 of Part 7.9 of the Corporations Regulations 2001 dated 20th September 2011; colloquially referred to as a 'short-form PDS'. The information in this statement forms part of the PDS for the Fund dated 20th September 2011.

The information provided in the PDS and this Additional PDS Disclosure is general in nature and does not take into account your personal financial situation or needs. **You should read the PDS and this Additional PDS Disclosure together and seek independent financial advice tailored to your own needs before making a decision about whether to invest in the Fund.**

Capitalised terms in this document have the same meaning given to those terms in the glossary found in Section 9.3 of the PDS.

## Disclaimer

Neither we, nor the Investment Manager, nor any of either of those parties' related bodies corporate guarantee the performance of the Fund or the return of capital or income.

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## 1. How the Fund works

### 1.1 Can the Fund borrow?

Yes. The use of a margin lending facility allows the Fund to leverage its investments, since the money received from borrowing can be invested in the market in addition to cash invested by unitholders. The use of leverage increases the potential for profit in the Fund, but also increases the potential losses. To manage this risk, we aim to maintain a loan value ratio (LVR) of between 0-50%. As at 20th September 2011 the Fund had no gearing.

### 1.2 How to invest

You can download a copy of the application form and instructions on how to complete the application form at our website – [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta).

### 1.3 Unit prices

Units will be issued at the unit price calculated on the date the units are issued which is generally the last Business Day of the calendar month during which the application money is received. Until units are issued the application money is held in a separate account pending the application being processed and the monies invested in the Fund. Interest will not be paid on application money.

### 1.4 Withdrawals from the Fund

Whenever the Fund is 'liquid', you can make withdrawal requests for all or part of your investment in the Fund in accordance with the constitution. If we receive your request during the Quarter (up until 11am on the last business day of the quarter), then any redemption amount to which you are entitled will be calculated on the last Business Day of that Quarter (Redemption Date). The Fund is 'liquid' if we reasonably believe 80% or more of the Fund's assets could be realised within 14 days of the end of the current Quarter. If you make a withdrawal request, then we will attempt to meet that request on the next Redemption Date. However, we may extend the time to meet the request if we are not able to meet this timeframe despite our reasonable effort (for example, because a market is suspended or closed).

If we receive requests for withdrawals during a Quarter with an aggregate value of more than 25% of the Fund, then we may (at our discretion) reduce each request pro rata so that no more than 5% of the investments in the Fund are withdrawn at the next Redemption Date. If this occurs then the remainder of your withdrawal request will be held over to the next Redemption Date.

If the Fund is considered 'illiquid', then you will only be able to withdraw your investment from the Fund by accepting a periodic withdrawal offer made by us to all investors. The withdrawal price payable for each unit if the Fund is illiquid is the price published by us in the relevant withdrawal offer. If the Fund is illiquid, then we are not obliged to make withdrawal offers. However, it is our intention to make withdrawal offers on a quarterly basis. We offer no guarantee as to the size of any withdrawal offer or whether or not a withdrawal offer will be made at all. If a withdrawal offer was made but there were not sufficient assets to satisfy all investors' withdrawal requests, then requests would be satisfied proportionately among those investors wanting to withdraw.

We expect the Fund to remain liquid, however, the Fund's 'liquidity status' may change over time, based on its assets. You should check [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta) for up to date information.

You should also keep in mind the following matters with regard to withdrawals generally:

- (a) If the Fund is liquid, then the unit price will be determined on the Redemption Date and will be adjusted for the buy/sell spread applying at the time.
- (b) If satisfying your withdrawal request would result in you holding less than the minimum holding, then we may redeem your entire holding. The minimum holding can be adjusted (up or down) by us at any time and is currently \$10,000. We will update investors if the minimum holding changes. If we elect to increase the minimum to a level of holding which results in you holding less than the minimum holding, then we may (after giving you 30 days' notice) redeem your units without receiving a withdrawal request form you.
- (c) If the trust is illiquid and there is no withdrawal offer currently open, then you have no right to withdraw from the Fund.
- (d) We are not required to pay any withdrawal proceeds out of our own funds.
- (e) When the Fund is illiquid the withdrawal price is calculated by us in accordance with the terms of any current withdrawal offer.
- (f) We reserve the right to deduct from the withdrawal proceeds any bank charges and other similar bank fees incurred as a result of payment of your withdrawal proceeds. We may also deduct from your withdrawal proceeds any money due to us or any amount of tax we estimated to be payable by you or on your behalf.

## 1.5 Calculation of the unit price

(a) How and when the unit price is calculated

The unit price is calculated by dividing the net asset value of the Fund by the number of units on issue in the Fund. The unit price is calculated as at the close of business on the last Business Day of the month. The unit price is then listed on our website [www.amhonline.com.au/theta](http://www.amhonline.com.au/theta) or is available by calling the Investor Services Centre on 02 9241 7959.

(b) Postponing the calculation of the unit price

The Responsible Entity has the right to postpone the calculation of the unit price for the Fund in the following circumstances:

- (i) During any period when any market on which the Fund's assets are traded is closed otherwise than for regular holidays.
- (ii) During any period when trading on any market on which the Fund's assets are traded is restricted or suspended.
- (iii) During the existence of any state of affairs as a result of which disposal of any of the Fund's assets cannot in our opinion be effected normally or without materially prejudicing the interests of investors.
- (iv) During an emergency, including without limitation an emergency caused by a mechanical or electronic malfunction.
- (v) During any period when the acquisition or realisation of the Fund's assets or the transfer of funds involved in such acquisition or realisation cannot, in our opinion be effected at normal prices or normal rates of exchange.
- (vi) A moratorium is declared or other similar action is taken by any governmental authority or regulatory body of a place within which significant proportion of the Fund's assets are situated.

## 1.6 Distributions

(a) Your entitlement to income

A unit in the Fund entitles you to participate in any profits or income arising out of the purchase, management, disposal or general investment of the assets of the Fund. The yield, if any, on investments is calculated by reference to the unit price on a weekly basis.

Your income entitlement for each Distribution Period will be determined as soon as practicable after the end of 30 June each year. Where an income entitlement is to be distributed in cash, the distribution will generally be made by 30 August that year.

(b) Calculating your income entitlement

Your entitlement to distributable income is calculated by –

- (i) determining the income of the Fund for that period and then deducting all expenses incurred by the Fund and any provisions that we deem appropriate
- (ii) dividing the distributable income for that period by the number of Units on issue on the last day of the Distribution Period to determine the distributable income per unit, and
- (iii) multiplying the distributable income per unit by the number of Units held by you and rounding down the product to the nearest whole cent.

Any balance of one cent arising as a consequence of any calculation is deemed to accrue in the following Distribution Period. If you redeem all or some of your units, the redemption price will include two elements: capital and any income, relating to those units which accrued whilst you held those units during the Distribution Period. Accordingly, you will not be entitled to a distribution of income at the end of the Distribution Period in respect of units redeemed during that Distribution Period.

Your income entitlement may exceed the amount of income that you have to include in your assessable income for taxation purposes. You will be advised of the amount of your income entitlement that constitutes your assessable income for taxation purposes.

Once a distribution is made, the unit price usually falls by a similar amount to the amount of distributable income paid in respect of each unit because the total value of the Fund has been reduced as a result of the distribution. If you invest just before a distribution of income is made, you may receive some of your investment immediately back as income. This is because the unit price at which the units are issued to you may include income of the Fund that has not been distributed. From a taxation perspective, you will have converted part of your capital investment into income which is assessable to taxation. If you withdraw your investment immediately before a distribution is made part of the unit price at which the units are redeemed may compromise income of the Fund. If you are subject to Australian capital gains tax provisions, the full redemption price will be used to determine whether you have made any capital gain thus possibly converting the income to a capital gain.

We suggest you seek the advice of your taxation advisor or financial planner in respect of this issue.

(c) Automatic reinvestment

All income to which you are entitled will be automatically reinvested into the Fund unless you give us written notice that your entitlement, or any part of that entitlement, is to be paid to you. You are entitled to vary or terminate any request to us to pay your income entitlement by notifying us in writing at any time. In order to receive your income entitlement, you must notify us in writing at least 30 days before the end of the relevant Distribution Period.

Units issued as a result of income entitlements being reinvested will be issued on the last day of the relevant Distribution Period at the unit price calculated after making all income distributions for the Distribution Period. No cooling-off period applies to units issued pursuant to an automatic reinvestment.

## 2. About the Fund

### 2.1 Overview

The Fund is designed to provide capital growth over the long term. We recommend an investment horizon of at least five years. It is not a suitable short-term investment.

The Fund invests predominantly in options with reference to Australian and European stock market indices and may also invest in Australian and international equities, futures contracts, exchange-traded options, spot foreign exchange contracts, and contracts for difference. The investments of the Fund are managed by Theta Capital Investments Pty Limited (Investment Manager).

The Fund will attempt to achieve its capital growth objective using a long/short trading strategy which is designed to provide profits not only during a steady or trending market but during times of extreme volatility and a turning market. There are no restrictions on the type of securities, commodities, currencies or markets in which the Fund may trade. In managing the Fund, the Investment Manager will employ a proprietary trading concept and strategies developed by the Investment Manager's team. The trading methods utilised are proprietary and confidential, and rely on a combination fundamental and technical analysis.

The trading strategies and systems utilised by the Fund may be revised significantly from time to time as a result of ongoing research and development, which seeks to devise new trading strategies and systems as well as continually test current methodologies. If there are significant and material changes to the investment strategy or asset mix we will notify you via our normal investor communication.

### 2.2 Limited liability for investors

Typically when investing in financial derivatives (such as futures) there is a risk you will be asked to meet 'margin calls'. This means that if you invested personally you might be asked to provide additional funds in order to maintain an 'open position'. Under the constitution of the Fund your liability is limited to the amount of your investment in the Fund. You should not, by reason alone of being an investor or by reason of the relationship created with us as the responsible entity of the Fund, be under any obligation personally to indemnify us or any creditor or any creditor of ours in the event of there being any deficiency of assets of the Fund compared to the Fund's liabilities. The only rights, if any, of us or any creditor of ours to seek indemnity should be limited to the assets of the Fund.

However, no absolute assurance can be given in relation to the liability of Investors in the Fund because the ultimate liability of an Investor in a unit trust has not been determined fully by the courts.

## 3. Risks of managed investment schemes

We refer you to Section 4 of the PDS which contains a summary of the significant risks of investing in a managed investment scheme generally and some of the specific risks of investing in the Fund. We encourage you to read Section 4 of the PDS in conjunction with this section.

We have set out below more information on some of the specific risks referred to in the PDS and included some additional risks that are relevant to the Fund.

(a) Investment risk generally

When deciding whether to invest in the Fund, you must decide whether, given the nature of the investments the Fund may make your financial situation permits you to participate in an investment that involves a high degree of risk. Put simply, it is possible you may lose a substantial portion or even all of the monies you invest.

There is a risk that changes in economic conditions, including but not limited to interest rates, inflation rates, employment conditions, competition, technological developments, political and diplomatic events and trends, and tax laws can affect substantially and adversely the business and prospects of the Fund. None of these conditions are within our or the Investment Managers' control and no assurances can be given that such developments will be anticipated.

(b) Counter party risk

A loss may occur if the other party to a contract, including derivatives contracts or lending arrangements (cash or stocks), defaults on their obligations under the contract.

- (c) Risks of derivative trading
- Futures contracts, options on futures contracts, options on securities, and contracts for difference are all a form of derivative. Derivative markets can be highly volatile. Accordingly, the risk of loss in trading in derivatives contracts can be substantial for the following reasons:
- (i) You can sustain a total loss of the amount you invest to establish or maintain a contract, but your loss is not limited to that amount. That is, the Fund could lose additional money beyond the funds originally invested to open a position.
  - (ii) If the market moves against the Fund's position, the Fund will be required to deposit additional funds in order to maintain its position. That is, it might be asked to 'top up' its account and those additional funds may be substantial. If the Fund fails to provide those additional funds immediately, then the broker may sell some or all of the Fund's positions and the Fund will be liable for any losses incurred.
  - (iii) To mitigate these risks the Investment Manager may place contingent orders such as a stop loss order which can potentially limit any loss. A stop loss order is typically executed at or near the price or value requested by you, but is not guaranteed at the exact level. Accordingly, stop loss orders may not limit your losses to the exact amount you specified.
  - (iv) A high degree of leverage can be obtained by trading in derivative products because only a small amount needs to be invested to gain a large exposure to price movements of the underlying asset or index. Having small initial margin requirements can work against you as well as for you. The use of leverage can lead to large losses as well as large gains. The impact of leverage is that even a slight fluctuation in the price or value of the underlying asset or index could mean substantial gains when these fluctuations are in your favour, but could also mean considerable losses if the fluctuations are to your detriment.

(d) Redemption risk

We expect the Fund will be liquid which means you are able to send withdrawal requests to us to be processed within 14 days of the end of each Quarter. However, if withdrawal requests are received that exceed 25% of the net asset value of the Fund, then we may (at our discretion) reduce each request on a pro rata basis so that only units equal to 5% of the net asset value of the Fund are redeemed. If this occurs, then your redemption request will be automatically held over in respect of the remaining balance and will apply at the end of the next Quarter. There is therefore a risk you may not be able to access all of your money when you make a redemption request even if the Fund is liquid. Investors should regard their investment as long term and illiquid.

If the Fund has illiquid assets which comprise 20 percent or more of the Fund's total assets, then the Fund will be considered 'illiquid', in which case you can only withdraw from the Fund if we make a withdrawal offer to all investors. If the Fund were liquid, then it is our intention to make withdrawal offers quarterly, but we are not obliged to do so. Liquid assets currently comprise approximately 100% percent of the Fund's total assets.

(e) Interest rate risk

Changes in interest rates may have a negative impact, either directly or indirectly, on investment returns.

## 4. How we invest your money

### 4.1 Investment philosophy

In selecting investments for the Fund the Investment Manager seeks to identify investments with long term performance potential. While the Investment Manager has a wide investment mandate which allows it to invest in a wide variety of investments (see Section 4.2), its primary focus is on options referenced to Australian and European indices.

In assessing these opportunities the Investment Manager initially uses a non-directional investment approach (and thus eliminating the need to predict short or long term market movements). The Investment Manager uses fundamental analysis and chart-based strategies to form opinions on the market. Once the opinion is formed, the Investment Manager constructs a medium to long term investment outcome.

The Investment Manager aims to diversify the portfolio to ensure a negative risk correlation and achieves diversification within the options market, not by trading 'more' options markets but by minimising the effects of individual market influences by trading within an index that reflects a diverse portfolio of companies. For example, an increase in the price of oil might have a detrimental effect on the share price of a company involved in heavy lift equipment whilst having a positive effect on the share price of a company that owns oil refineries. Therefore, by trading options in both companies, the effect of an oil price rise might be neutralised.

### 4.2 What can the Fund invest in?

The Fund invests predominantly in Australian and international index based derivatives. While this represents the Fund's primary focus, the Investment Manager may also make investments on behalf of the Fund in Australian and international listed and unlisted equities, futures contracts, exchange-traded options, spot foreign exchange contracts, and contracts for difference.

While the Fund invests primarily in Australian and international index based derivatives we have set out below a brief explanation of some of the other types of investments in which the Fund can invest:

(a) Equities

The equities that the Fund will invest in will generally be shares in companies that form part of an index, in particular, the Australian Securities Exchange 200, the Financial Times 100 (FT 100), the Deutscher Aktied Index (DAX) and Standard and Poor's US indices S&P 500). However, the Fund may also invest in share of companies listed on the domestic or international exchanges or in companies that have made broad or limited public offerings before listing.

(b) Futures contracts

A futures contract is a standardised forward contract made on a futures exchange and calls for the future delivery in specified quantities of the underlying asset (e.g. commodities, financial instruments and stock indices) at a specified time and place and at a price determined by competitive auction on the futures exchange. Unlike most other forms of investment, investors in futures contracts may decide to either buy or sell a commodity, financial instrument or index at a future time. Someone who buys a futures contract is known as being long or having a long position. The holder of a long futures contract will receive delivery of the underlying asset if the futures contract is held until the settlement date of the contract. Some futures contracts provide for a cash adjustment to take place on settlement rather than actual delivery. Someone who takes a long position will profit if the price of the underlying asset rises and will incur a loss if the price falls.

Holders of futures contracts may also profit when the price of a commodity, financial instrument or index falls. The rules surrounding futures contracts allow people to sell futures contracts before they buy. When someone does this, they are said to be going short or having a short position. The idea of going short involves selling something you do not currently have. If you hold a short position until expiry of the futures contract, you will be expected to deliver the underlying asset, or in the case of some futures contracts, make a cash adjustment for the appropriate profit or loss. Someone who takes a short position will profit if the price of an underlying, commodity, financial instrument or index falls, and will incur a loss if the price rises.

The obligations imposed by a futures contract may be discharged in one of two ways. The buyer and seller may, respectively, accept delivery or deliver an approved grade of commodity or, as will be done in the case of the Fund, may make an offsetting sale or purchase of an equivalent futures contract on the same futures exchange before the expiration of trading in the futures contract. The difference between the price at which a futures contract is purchased or sold and the price paid for the offsetting sale or purchase, after allowance for brokerage, fees and transaction costs, is the profit or loss to the Fund. All trades made on behalf of the Fund will be closed out by making an offsetting sale or purchase of the equivalent futures contract.

The Fund does not intend to take delivery, or put itself in a position where it is required to make delivery of, the underlying commodity or financial instrument. Holders of futures contracts are required to put up an initial margin, representing a fraction of the value of the underlying commodity or financial instrument. If a futures contract subsequently generates unrealised losses as a result of adverse price movements, the executing broker may call for additional monies. These additional calls are called variation margins and they attempt to protect the clearing house and the executing broker against default by the buyer or seller.

(c) Futures options

An option on a futures contract is a contract between two parties giving the taker (buyer) the right, but not the obligation, either to buy or sell a futures contract at a specified price on, or before, a specified date. To acquire this right, the taker pays a premium to the writer (seller) of the contract. Option sellers are referred to as writers because they underwrite the obligation to deliver or accept the futures contract covered by an option. Buyers are referred to as takers because they take up the right to buy or sell a futures contract.

(d) Options

There are two types of options – call options and put options. Options can be written in respect of any asset (e.g. securities, commodities, futures contracts). Call options gives the taker the right, but not the obligation, to buy the underlying asset, whilst put options give the taker, the right, but not the obligation, to sell the underlying asset. Options can be used to speculate on price movements of the underlying asset or alternatively can be used to hedge existing portfolios.

(e) Foreign exchange

In every foreign exchange contract there are two currencies. The currency being priced is known as the commodity currency. The exchange rate is quoted such that a fixed number of units (usually one) of the commodity currency is expressed in terms of a variable number of the other currency; the 'terms currency'. Foreign exchange can be quoted as either a price quotation or a volume quotation. In a priced quotation, the foreign currency (or commodity currency) is priced in terms of the local currency (or terms currency) eg in USA, USD1 equals Yen120. In a value quotation the local currency (the commodity currency) is priced in terms of the foreign currency (the terms currency). For example, in Australia AUD1 equals USD0.98. A cross rate is an exchange rate derived from two other exchange rates (and not the local currency).

In the market, the quoting party (usually a bank or broker) will make a two way quote. The two parties to the quotation are the quoting bank and the market participant (which can be a bank or broker). The quoting bank is the party that makes the market while the market participant is the party that calls and asks the quoting bank to make a market.

The market participant seeking the market performs the opposite side of the transaction to the quoting bank or broker. If the quoting bank wishes to buy dollars then the market participant sells dollars. If the market participant wishes to buy dollars then the quoting bank is selling dollars. The first rate quoted is the bid rate and the second rate quoted is the offer rate.

- (i) The bid rate is the rate at which the quoting bank is willing to buy a commodity currency.
- (ii) The offer rate is the rate at which the quoting bank is willing to sell the commodity currency.

If the market participant wishes to sell dollars to the quoting bank it must sell dollars at the quoting bank's bid rate (ie its buying rate). If the market participant wishes to buy dollars from the quoting bank it must buy dollars at the quoting bank's ask rate (ie its selling rate). The difference between the bid rate and ask rate is called the bid/offer spread. The quoting bank is seeking to make a profit by buying the commodity currency more cheaply than it sells it.

## 4.3 Investment considerations

We do not take into account labour standards or environmental, social or ethical considerations in the selection, retention or realisation of investments. Our commitment to you is to invest your money in a range of authorised investments so to achieve what we believe will amount to long term and sustained capital growth.

## 5. Fees and costs

### 5.1 General

This Section contains further explanation of the fees and costs of the Fund. You should read this section in conjunction with Section 6 of the PDS.

The fees set out below show the effect of GST (i.e., inclusive of 10% GST). To the extent input tax credits may be claimed, then the fee may be lower.

### 5.2 Management fees

The management fee and performance fee we are entitled to charge is described in Section 6.1 of the PDS. A worked example of the performance fee is included in Section 5.4 below.

We are responsible for the payment of the Investment Manager's fees from the fees we receive.

### 5.3 Administration expenses

The constitution of the Fund allows for the operating expenses such as registry, audit, taxation advice, custody, fund administration and unit registry to be paid directly from the Fund. We may recover abnormal expenses (such as costs of unitholder meetings, changes to the constitution and defending or pursuing legal proceedings) from the Fund. Whilst it is not possible to estimate such expenses with certainty, we anticipate that the events that give rise to such expenses will rarely occur. In circumstances where such events do occur, we may decide not to recover these abnormal expenses from the Fund.

### 5.4 Performance fee

- (a) When are we entitled to a performance fee?

We are entitled to a performance fee of 22% of the positive amount by which the net asset value of the Fund at the end of the Quarter exceeds the net asset value of the Fund at the beginning of the Quarter (after all costs and fees have been paid for the Quarter).

- (b) How and when is the performance fee calculated?  
The performance fee is calculated on the last Business Day of each Quarter. The performance of the Fund is determined by subtracting the net asset value of the Fund on the first day the Quarter from the net asset value of the Fund on the last day of the Quarter. We are entitled to 22% of the amount of any increase in the net asset value of the Fund.
- (c) When is the performance fee paid?  
If a performance fee is payable, then it is paid at the end of the Quarter and is reflected in the unit price at the commencement of the following Quarter.
- (d) What if the Fund underperforms?  
If the Fund underperforms its benchmark, then no performance fee is payable.
- (e) Is any negative performance (or underperformance) carried forward?  
No. We do not have to recoup any underperformance from prior periods before being entitled to a performance fee. Some funds use a concept of a 'high water mark'. Typically this requires any prior underperformance to be recovered before any performance fees are payable in the future. We believe that type of system encourages investment managers who might underperform in a period to trade more aggressively in the future to recoup prior losses. That is, we believe this type of fee structure it encourages excessive risk taking which is not in the long term interests of investors.
- An example of how the performance fee is calculated is included below.

	Fund			
	Net asset value	Performance Rate <sup>1</sup>	Outperformance (\$) <sup>2</sup>	Performance Fee <sup>3</sup>
<b>Q1</b>	\$100,000	Nil	Nil	Nil
<b>Q2</b>	\$120,000	20.00%	\$20,000.00	\$4,400.00
<b>Q3</b>	\$120,000	0.00%	Nil	Nil
<b>Q4</b>	\$130,000	8.33%	\$10,000.00	\$2,200.00
<b>Q5</b>	\$120,000	-7.69%	-\$10,000.00	Nil
<b>Q6</b>	\$140,000	16.67%	\$20,000.00	\$4,400.00

1. Percentage change in net asset value of the Fund during the Quarter
2. Outperformance expressed in dollars
3. Performance fee equal to 22% (including GST) of outperformance

Note: The above examples are illustrative only and should not be interpreted as a forecast of how the Fund might perform. It is not possible for us to forecast how the Fund will perform in the future. You should also remember that past performance is not an indicator of likely future performance. Neither we nor the Investment Manager provide any guarantees or assurances about the future performance of the Fund.