

# DNR Capital Reference Guide

## DNR Capital Australian Equities High Conviction Fund

ARSN 604 465 849

Date: 30 January 2017

The information in this reference guide forms part of the Product Disclosure Statement ('PDS') dated 30 January 2017 for the DNR Capital Australian Equities High Conviction Fund ('the Fund'). You should read this information together with the PDS before making a decision to invest in the Fund.

The information in this reference guide is general information only and does not take into account your personal financial situation or needs. Before investing, you should obtain financial advice tailored to your personal circumstances.

Information in this Reference Guide is subject to change

from time to time. Information that is not materially adverse can be updated by us. Updated information can be obtained by contacting your Portfolio Service operator (for indirect investors), going to the Fund website at [www.dnrcapital.com.au/invest](http://www.dnrcapital.com.au/invest), or a paper copy can be obtained, free of charge, upon request by calling DNR Capital Pty Ltd ('Manager'), the investment manager of the Fund.

Defined terms used in this Reference Guide have the same meaning as used in the PDS unless defined in this Reference Guide or the context requires otherwise.

### 1. How the DNR Capital Australian Equities High Conviction Fund works

#### General applications and withdrawals

No interest is earned on application money, proceeds of withdrawal requests and distribution amounts, which are held in trust accounts prior to being processed.

The Administrator will provide written confirmation of each of your transactions as soon as practicable. This includes initial and additional investments and reinvestments. Confirmation will be made to you by email or post.

All original initial Application Forms must be mailed to:

FundBPO Pty Ltd – Unit Registry  
GPO BOX 4968  
SYDNEY NSW 2001

Additional applications can be made by completing an Additional Application Form and mailing it to the address above or faxing to +612 9251 3525

#### Withdrawals from the Fund

##### Withdrawal terms

When you are withdrawing from the Fund, you should take note of the following:

- Withdrawal payments will only be made to a bank account held in the name of the investor(s). Payments will not be made into third party bank accounts.
- We are not responsible or liable if you do not receive, or are late in receiving, any withdrawal money that is paid according to your instructions.
- We may contact you to check your details before processing your Withdrawal Request Form. This may cause a delay in finalising payment of your withdrawal money. No interest is payable for any delay in finalising payment of your withdrawal money.
- If we cannot satisfactorily identify you as the withdrawing investor, we may refuse or reject your withdrawal request or payment of your withdrawal proceeds will be delayed. We are not responsible for any loss you consequently suffer.

Withdrawal requests can be made by completing a Withdrawal Request Form and mailing it to

FundBPO Pty Ltd – Unit Registry  
GPO BOX 4968  
SYDNEY NSW 2001

If you are investing indirectly through a Portfolio Service, you should follow the instructions of the Portfolio Service operator when withdrawing your investment from the Fund.

##### Restrictions on withdrawals

Perpetual may, where we determine it is desirable for the protection of the Fund or in the interests of investors, suspend withdrawals from the Fund in certain circumstances as set out in the Constitution. The circumstances in which we may not give effect to all or part of the withdrawal request may include the following situations:

- Any relevant Australian exchange is closed, or trading on such exchange is restricted.
- An emergency exists as a result of which it is not reasonably practicable for Perpetual to dispose of the assets of the Fund or to determine fairly the withdrawal price.
- Any state of affairs exists as a result of which it is not reasonably practicable for Perpetual to dispose of the assets of the Fund or to determine fairly the withdrawal price.
- Any moratorium declared by the Australian government.

If Perpetual refuses to give effect to all or part of a withdrawal request, Perpetual will advise you as soon as practical of such refusal.

In certain circumstances where there is a large withdrawal request or withdrawal requests which collectively represent a large number of units, Perpetual may treat the request or requests as a series of smaller requests over a number of weeks.

If you are investing indirectly through a Portfolio Service, you should follow the instructions of the Portfolio Service operator when withdrawing your investment from the Fund.

Under the Act, you do not have a right to withdraw from the Fund if the Fund is not liquid. In such circumstances you can only withdraw where Perpetual makes a withdrawal offer in accordance with the Act. Perpetual is not obliged to make such offers.

The Fund will generally be liquid if liquid assets (generally cash and marketable securities) account for at least 80% of the value of the assets of the Fund.

#### Unit pricing policy

Perpetual has a policy for unit pricing discretions we use in relation to the Fund for the purposes of ASIC Class Order 13/655. Additional documents may be prepared for this purpose from time to time. This document may be revised or updated to reflect changes in the Fund Constitution or to our pricing policies. The unit pricing policy and discretions we exercise are available from us free of charge upon request.

#### Applications via a Portfolio Service

If you are investing indirectly through a Portfolio Service, you will be an indirect investor.

An investment in the Fund offered under the Fund's PDS and Reference Guide via a Portfolio Service does not entitle you to a direct interest in the Fund.

Some of the key differences in relation to being an indirect investor are outlined in the table below:

<b>Registered holder</b>	<p>The Portfolio Service is the registered holder of units issued by the Fund.</p> <p>This means that:</p> <ul style="list-style-type: none"> <li>• The Portfolio Service records the balance of your investment in the Fund.</li> <li>• Transaction statements, notices and other Fund reports are sent to the Portfolio Service operator, who will then forward communications to you as required.</li> </ul> <p>Distributions are paid to the Portfolio Service operator or reinvested in the Fund on the instruction of the Portfolio Service operator.</p>
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<b>Rights</b>	The Portfolio Service operator holds the rights that apply to a person who invests directly in the Fund, and may exercise those rights. These rights include voting at meetings of investors of the Fund.
<b>Transacting on your investment</b>	<p>Applications and withdrawals are determined by the Portfolio Service operator, including any requirements for minimum balances.</p> <p>Timing and processing of transactions (including applications, withdrawals and distributions) is determined by the Portfolio Service operator and may be different to the times and processes of the Fund.</p> <p>Cut-off times for transacting are determined by the Portfolio Service operator.</p>
<b>Fees and other costs</b>	Additional fees and expenses may be charged by the Portfolio Service operator.

As an indirect investor, you should read the disclosure document for that Portfolio Service together with the PDS and this Reference Guide prior to investing. The Portfolio Service disclosure document contains important information that outlines their requirements in relation to who may invest, minimum balances, additional investments, processing applications and any other terms or conditions which they apply.

Perpetual has authorised the use of the PDS and this Reference Guide for the purpose of disclosure to direct investors as well as indirect investors.

Indirect investors should contact their financial adviser or Portfolio Service operator for any investor queries.

## 2. How we invest your money

### Detailed investment strategy

DNR Capital believes a focus on quality businesses will enhance returns when combined with a thorough valuation overlay. It seeks to identify quality businesses that are mispriced by overlaying a quality filter referred to as the 'quality web' with a strong valuation discipline.

DNR Capital believes that quality businesses outperform for these reasons.

- Quality businesses generate more capital that can be reinvested to drive sustainable returns over time.
- Businesses in structurally superior industries with pricing power can grow above CPI and are more protected against inflation.
- Higher quality balance sheets help to ride out market cycles.
- The ability to value quality businesses is enhanced by the sustainability of earnings. So quality businesses will tend to trade at a premium.
- Quality businesses tend to recognise the benefits of good environmental, social and corporate governance (ESG) policy which reduces tail risks.

However quality needs to be overlaid with a valuation review to ensure that securities are identified when they are out of favour and offer an excess return. This can be when the market is underestimating improving quality or sustainability of returns, or has de-rated as they question the quality of a business. Furthermore markets can be short-term focused which means opportunities emerge in securities which meet the definition of quality and offer that excess return.

DNR Capital's security selection has a strong bottom-up discipline and focuses on buying quality businesses at reasonable prices.

Security research focuses on quality and valuation. DNR Capital uses a five point 'quality web' in which five quality factors are reviewed. The key criteria are as follows:

1. Industry positioning to identify superior positioning, competitive advantage and ability to sustain returns.
2. Earnings strength as determined by quantitative data scores based on factors such as a security's return on equity (ROE).
3. Balance sheet strength as determined by quantitative data scores based on factors such as a security's net debt to equity ratio.
4. A management score which is a subjective measure based on experience and extensive company meetings with weight given to those management teams with a history of good allocation of capital.
5. An ESG score derived from the DNR Capital socially responsible assessment which utilises data from an external service provider as well as its own assessment. Key regard is made to tail risks that could impact valuation.

Where the security passes this quality assessment then a range of valuation methodologies are used to identify value having regard for the industry and circumstances of the business.

DNR Capital seeks to invest in businesses which offer upside to the target valuation in excess of its market forecast and sit within a defined portfolio construction framework.

Having identified securities with attractive quality and value characteristics, consideration is given to risk characteristics such as the security and sector correlations of investments.

The portfolio construction process is also influenced by a top-down economic appraisal. A range of economic indicators are reviewed regularly and these measures are used to formulate an economic overview which provides a backdrop to investment decision making and influences portfolio construction.

Investments held in the Fund are formally reviewed by the investment committee which meets monthly and is responsible for reviewing Fund performance, Fund constituents, the economic overview and internally generated reports. While the ultimate decision rests with the investment team, the investment committee provides a mechanism of accountability.

### Valuation of investments

All of the Fund's investments are valued at market value by an independent administrator appointed by Perpetual.

### Environmental, social and ethical factors and labour standards

DNR Capital does take into account environmental, social and governance considerations when undertaking investment analysis to identify risks that may impact future financial performance.

DNR Capital evaluates and scores securities on ESG considerations. This score is derived from the Manager's assessment which utilises data from external data providers as well as its own assessment and has key regard to tail risks that could impact valuation. The ESG score forms part of a broader assessment of a business's overall quality attributes using the 'quality web'. The process of monitoring the ESG considerations requires a subjective judgement as to the effect on a security's future financial performance. The monthly investment committee meeting provides a forum to discuss and review the various aspects of the Fund's investments including any ESG considerations. However, DNR Capital has no pre-determined methodology on the extent to which labour standards and environmental, social or ethical considerations are taken into account, monitored or reviewed in making investment decisions as these factors are considered on a case by case basis.

It should be noted that decisions about whether to buy, hold or sell investments on behalf of the Fund are based primarily on traditional financial analysis.

### Wholesale clients

Depending on your circumstances, you may be a wholesale client under the Act. You are generally a wholesale client if any one of the following applies to you:

- Your investment is \$500,000 or more.
- You provide an accountant's certificate stating that you have net assets of at least \$2.5 million or have earned at least \$250,000 in each of the last two financial years.
- You are a professional investor (which applies if you hold an AFSL, are APRA regulated or have or control at least \$10 million worth of gross assets).
- Perpetual is satisfied on reasonable grounds that you have suitable previous experience in financial products, subject to certain conditions.
- You are a company or trust that is controlled by persons who are wholesale clients.

If you are a wholesale client, you will not have any cooling off rights and may not be able to take your complaints to FOS.

### Privacy statement

We collect personal information from you in the application and any other relevant forms to be able to process your application, administer your investment and comply with any relevant laws. If you do not provide us with your relevant personal information, we will not be able to do so.

Privacy laws apply to our handling of personal information and we will collect, use and disclose your personal information in accordance with our privacy policy, which includes details about the following matters:

- the kinds of personal information we collect and hold
- how we collect and hold personal information
- the purposes for which we collect, hold, use and disclose personal information
- how you may access personal information that we hold about you and seek correction of such information (note that exceptions apply in some circumstances)
- how you may complain about a breach of the Australian Privacy Principles (APP), or a registered APP code (if any) that binds us, and how we will deal with such a complaint
- whether we are likely to disclose personal information to overseas recipients and, if so, the countries in which such recipients are likely to be located if it is practicable for us to specify those countries.

Our privacy policy is publicly available at our website at [www.perpetual.com.au](http://www.perpetual.com.au) or you can obtain a copy free of charge by contacting us. A copy of the Administrator's privacy policy is publicly available at [www.mainstreambpo.com.au](http://www.mainstreambpo.com.au).

If you are investing indirectly through a Portfolio Service, we do not collect or hold your personal information in connection with your investment in the Fund. Please contact your Portfolio Service operator for more information about their privacy policy.

### The Constitution

The Fund is governed by a Constitution that sets out how the Fund must operate, and together with the PDS and this Reference Guide, the Act and other laws, regulates Perpetual's legal relationship with investors. If you invest in the Fund, you agree to be bound by the terms of the PDS, this Reference Guide and the Constitution. You can request a copy of the Constitution, free of charge, from Perpetual. Please consider these documents before investing in the Fund.

We may amend the Constitution from time to time in accordance with the provisions in the Constitution and the Act.

The Fund will terminate two days before the 80th anniversary of the establishment of the Fund, but Perpetual may terminate it earlier by notice to investors. On termination, Perpetual will realise the Fund's assets and pay to investors their share of the net proceeds of realisation.

### Anti-Money Laundering and Counter-Terrorism Financing legislation

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 ('AML Act') and other applicable anti-money

laundering and counter terrorism laws, regulations, rules and policies which apply to Perpetual ('AML Requirements') regulate financial services and transactions in a way that is designed to detect and prevent money laundering and terrorism financing. The AML Act is enforced by the Australian Transaction Reports and Analysis Centre ('AUSTRAC'). In order to comply with the AML Requirements, Perpetual is required to, amongst other things:

- verify your identity and source of your application monies before providing services to you, and to re-identify you if we consider it necessary to do so; and
- where you supply documentation relating to the verification of your identity, keep a record of this documentation for 7 years.

Perpetual and the Administrator as its agent (collectively 'the Entities') reserve the right to request such information as is necessary to verify the identity of an investor and the source of the payment. In the event of delay or failure by the investor to produce this information, the Entities, may refuse to accept an application and the application monies relating to such application or may suspend the payment of withdrawal proceeds if necessary to comply with AML Requirements applicable to them. Neither the Entities nor their delegates shall be liable to the investor for any loss suffered by the investor as a result of the rejection or delay of any subscription or payment of withdrawal proceeds.

The Entities have implemented a number of measures and controls to ensure they comply with their obligations under the AML Requirements, including carefully identifying and monitoring investors. As a result of the implementation of these measures and controls:

- transactions may be delayed, blocked, frozen or refused where an Entity has reasonable grounds to believe that the transaction breaches the law or sanctions of Australia or any other country, including the AML Requirements;
- where transactions are delayed, blocked, frozen or refused the Entities are not liable for any loss you suffer (including consequential loss) caused by reason of any action taken or not taken by them as contemplated above, or as a result of their compliance with the AML Requirements as they apply to the Fund; and
- Perpetual or the Administrator may from time to time require additional information from you to assist it in this process.

The Entities have certain reporting obligations under the AML Requirements and are prevented from informing you that any such reporting has taken place. Where required by law, an Entity may disclose the information gathered to regulatory or law enforcement agencies, including AUSTRAC. The Entities are not liable for any loss you may suffer as a result of our compliance with the AML Requirements.



### 3. Fees and costs

The following table shows the fees and costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund assets as a whole. Taxes are set out in section 7 of the PDS.

You should read all the information about fees and costs because it is important to understand their impact on your investment.

Type of fee or cost	Amount <sup>(i)</sup>	How and when paid
Fees when your money moves in or out of the Fund <sup>(ii)</sup>		
<b>Establishment fee</b> A 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>Withdrawal 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		
The fees and costs for managing your investment.	0.90%	The management cost is expressed as a percentage of the net asset value of the Fund, accrues daily and is payable monthly in arrears from the Fund. <sup>(iii)</sup>
Service fees		
<b>Switching fee</b> The fee for changing investment options	Nil	Not applicable

- i. All figures disclosed include the net effect of GST and reduced input tax credits.
- ii. Transaction Costs (buy/sell spread) apply. Refer to 'Buy/sell spread' in 'Additional explanation of fees and costs'.
- iii. Refer to 'Management Costs' in 'Additional explanation of fees and costs'.

#### Additional explanation of fees and costs

##### Management costs

The management costs include responsible entity fees, investment management fees, custodian fees (excluding transaction costs), administration fees and other expenses. The management fee is calculated and accrued daily based on the net asset value ('NAV') of the Fund. The accrued fees are paid in arrears from the Fund at the end of each month. The management costs reduce the NAV of the Fund and are reflected in the unit price.

##### Differential fees

Subject to the Act and the Constitution, Perpetual may negotiate lower or different fees with, or pay rebates to, certain investors that are wholesale clients as defined in the Act.

##### Buy/sell spread

The buy/sell spread is an additional cost to you and is an adjustment to the unit price. It represents a contribution to the transaction costs (such as brokerage) incurred when assets are bought and sold by the Fund. The current buy/sell spread is +/- 0.25% of the value of units being bought and sold. For example, if you invested \$50,000 in, or withdrew \$50,000 from, the Fund the cost of the buy spread would be \$125 and the cost of the sell spread would be \$125. This charge is levied to investors transacting rather than investors remaining in the Fund and is retained in the Fund.

There is no buy/sell spread on distributions from the Fund that are re-invested.

We may vary the buy/sell spread from time to time and prior notice will not normally be provided to you.

##### Additional transactional and operational costs

Additional transactional and operational costs associated with dealing with the Fund's assets may be recovered from the Fund. Transactional and operational costs, other than the buy/sell spread, may include brokerage, investment settlement fees and clearing costs when underlying assets are bought or sold.

The only additional transactional and operational costs incurred by the Fund are brokerage costs. For the year ended 30 June 2016, the brokerage cost was calculated to be \$27.50 based on a \$50,000 holding (approximately 0.055% of total average net assets).

##### Goods and Services Tax ('GST')

All fees and expenses referred to in the PDS are quoted on a GST inclusive basis less any reduced input tax credits available to the Fund.

##### Payments to Portfolio Service operators

Subject to the Act, payments may be paid to some Portfolio Service operators if they offer the Fund on their investment menus. Product access is paid by the Manager and is not an additional cost to the investor.

##### Changes to fees and costs

Perpetual reserves the right to change fees and other costs without your consent, but subject to any limitations under the Constitution and applicable law. We will give you 30 days notice prior to any increase in fees.

Under the Constitution, we are entitled to an entry fee, exit fee and a fee for additional fund administration services. We currently do not charge an entry or exit fee, and do not expect any additional fund administration services fees to be incurred. The Constitution also entitles us to charge a management fee of up to 3% per annum of the gross asset value of the Fund, which we are charging less than the maximum allowed. For more information about these fees, please contact us for a copy of the Constitution.

## 4. How managed investment schemes are taxed

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

FATCA is United States (US) tax legislation that enables the US Internal Revenue Service (IRS) to identify and collect tax from US residents that invest in assets through non-US entities.

If you are a US resident for tax purposes, you should note that the Fund is a 'Foreign Financial Institution' under FATCA and complies with its FATCA obligations, as determined by the inter-governmental agreement entered into by Australia and the US for the purposes of implementing FATCA. Under these obligations, the Fund must obtain and disclose information about certain investors to the Australian Taxation Office (ATO). In order for the Fund to comply with its obligations, we require that you provide certain information about yourself, including your US Taxpayer Identification Number. We will determine whether the Fund is required to report your details to the ATO based on our assessment of the relevant information received.

### COMMON REPORTING STANDARD (CRS)

The CRS is a tax reporting regime developed by the Organisation for Economic Co-operation and Development (OECD). Australia has committed to implementing the CRS by signing the Multilateral Competent Authority Agreement with the OECD and passing appropriate supporting legislation enabling tax information to be exchanged between tax authorities.

From 1 July 2017, the CRS requires financial institutions to identify and report foreign resident account holder information to their local tax authority, which will in turn exchange the information with the tax authorities of participating foreign jurisdictions.