

# Eley Griffiths Group Small Companies Fund



## **FUND GUIDE**

Dated 17 September 2008

### **Fundhost Limited**

ABN 69 092 517 087

ARSN 106 171 224

Australian Financial Services Licence No. 233045

This document contains information that refers to the product disclosure statement ("**PDS**") dated 17 September 2008 for the Eley Griffiths Group Small Companies Fund ("**Fund**") ARSN 106 171 224. Eley Griffiths Group Pty Limited ABN 66 102 271 812 AFSL No. 224 818 ("**EG Group**") and it should be read in conjunction with that PDS

Terms used in this document have the same meaning as terms used in the product disclosure statement.

Fundhost may from time to time make available updated information relating to the PDS or this document. Investors may access this information at [www.fundhost.com.au](http://www.fundhost.com.au), or alternatively may request a paper copy of this information free of charge from their adviser or by contacting Fundhost on 02 8223 5400. The information that Fundhost will make available by way of these updates is subject to change from time to time and will not be information that is materially adverse to investors.

## What's in this document?

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We hope you find this document easy to use. We encourage you to read it all in conjunction with the product disclosure document before you make any investment decision.

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## About Managed Funds

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Managed Funds provide a vehicle to gather investors' money in one place and then the professionals who manage the fund use their resources, experience and expertise to make investment decisions on behalf of those investors. Like most managed funds, this Fund is a Unit Trust. In exchange for your invested money you are issued units in the Fund. Certain rights (such as a right to any income and a right to vote) attach to your units. You may also have obligations as a result of holding units.

There are many types of Managed Funds. Some focus on providing income, some on capital growth. Some focus on higher risk investments and others on more steady performers, others still on a mix of these.

Depending on the type of investments a fund chooses to focus on, your decision to invest in one or perhaps more Managed Funds can be a good way to help better manage the effect of risk on your investments. Spreading risk often smooths the highs and lows of investment performance and helps reduce the impact on you of one or more types of investments performing poorly. More information about risk generally is on page 6 of the PDS.

## Non financial considerations

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Labour standards, environment, social or ethical considerations are not taken into account when selecting, retaining or realising investments of the Fund.

## Fundhost's responsibilities to you

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The Constitution establishes the Fund and sets out the rules. Together with the PDS and the law from time to time, it governs the relationship between you and Fundhost. It gives Fundhost rights to be paid fees and expenses and be indemnified from the Fund. It governs (amongst other things) Fundhost's powers (which are very broad), investor meetings and unit issue, pricing and withdrawal, as well as what happens if the Fund terminates.

The Constitution limits Fundhost's need to compensate you if things go wrong. Generally, subject always to liability which the Act imposes, Fundhost is not liable in equity, contract, tort or otherwise to investors for any loss suffered in any way relating to the Fund provided they act in good faith and without gross negligence.

The Constitution also contains a provision that it alone is the source of the relationship between you and Fundhost and not any other laws (except, of course, those laws that can't be excluded).

Fundhost must have investor approval to make changes to the Constitution which are adverse to the rights of investors.

You can obtain a free copy of the Funds Constitution by calling Fundhost.

A compliance committee has been established to oversee the compliance of the Fund with the Act. The majority of members of the compliance committee are independent of Fundhost.

The directors of Fundhost are or may become investors in the Fund and have and may acquire more shares in Fundhost. No amounts have been paid to a director or proposed director to induce them to qualify as, or become a director. Fundhost may also invest some of its own money in the Fund.

## Keeping you informed

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Fundhost will:

- confirm every application and withdrawal transaction you make with the Fund;
- send you or your Platform provider a report to help you with your tax return soon after June each year;
- by 30 September each year send you or your Platform provider the financial accounts of the Fund (you can use the application form to opt out of receiving these); and
- notify you or your Platform provider of any material changes to this PDS and any other significant event.

The Fund is considered to be a "disclosing entity" for the purposes of the Act. As a disclosing entity, the Fund will be subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Fund may be obtained from, or inspected at any ASIC office. You can also obtain a copy of the following documents from Fundhost free of charge:

- the annual financial report most recently lodged with ASIC for the Fund;
- any half year financial report lodged with ASIC for the Fund after the lodgement of the annual financial report; and
- any continuous disclosure notices given for the Fund.

For information concerning recent performance history and the current investments of the Fund, go to [www.fundhost.com.au](http://www.fundhost.com.au) or call Fundhost during Sydney business hours. If you are investing through a platform then reports on your investment will come from the operator of that service.

## What about tax?

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The tax information provided here is of a general nature only and based on tax laws that were current at the time of issue of this document. Investors should note that Australian tax laws are complex and are subject to constant change.

Investing, switching, exiting and other dealings with investments have tax and often social security implications which can be complex and which are invariably particular to an investor's circumstances. It is important to seek professional advice in respect of your own particular personal circumstances before you invest in or deal with your investment.

Tax liabilities are the responsibility of each investor and Fundhost is not responsible for taxation or penalties incurred by investors.

The analysis below is only relevant to the extent that the investor is a resident of Australia for tax purposes. The tax information is not applicable for temporary or non resident investors. Investors who are temporary residents or non residents of Australia for tax purposes should seek advice as to the Australian tax consequences of their investment in the Fund together with the tax consequences of such an investment in their country of residence.

The analysis provided here is relevant where an investor acquires and holds their investment in the Fund as a capital asset and not in connection with the conduct of a business or profit making scheme.

Investors, such as those engaged in a business of trading or investment, those who acquire their investment as part of a profit making scheme, those which are banks, insurance companies, tax exempt organizations and superannuation funds, will or may be subject to special or different tax consequences peculiar to their circumstances.

The summary is based upon the Australian law and administrative practice in effect at the date of this PDS. You should be aware that the ultimate interpretation of taxation law rests with the Courts and that the law, and the way the Commissioner of Taxation (Commissioner) administers the law, may change at any time.

References to the **1936 Act** and the **1997 Act** are to the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* respectively.

This statement is necessarily general in nature and does not take into account the specific taxation circumstances of each individual investor. You should seek your own independent taxation advice before investing in the Fund as your taxation consequences may differ from the summary below.

### Income

Generally, the Fund will not pay tax on the income or gains as Fundhost intend to distribute all of the Fund's income to investors in each financial year.

Any of the Fund's income that an investor becomes presently entitled to during a financial year (including income which is not actually distributed to the investor but instead is reinvested) forms part of their assessable income for that year.

Where the Fund invests in overseas securities (please see the "Investment Strategy" section in the PDS from information on what the Fund intends to invest in) the Fund may hold interests in controlled foreign corporations (**CFCs**) and foreign investment funds (**FIFs**). Under the CFC regime an investor may be assessed on a portion of the CFC's attributable income for a financial year, even though that income is not distributed to the investor.

Similarly, under the FIF regime an investor may be assessed on their portion of the FIF's attributable income for a financial year even if income is not distributed to the investor. There are some exceptions available that may exempt the Fund (and, therefore, indirectly the investors in the Fund) from being taxed under the FIF rules, including where the interests in all FIFs are valued at less than A\$50,000, where the Fund has what is known as a balanced portfolio and where the investment is in a foreign company and that company carries on an active business which is not black listed under the tax legislation.

## **Contribution Fee**

Where a Contribution Fee is charged to you as part of your investment (please see the "Fees and other costs" section of the PDS for information on what fees and costs apply to the Fund) it will not be deductible, although it can be included in the cost base for capital gains tax (CGT) purposes (see the discussion below).

## **Capital gains**

The Fund will generally distribute capital gains that it has realised throughout the income year to investors.

Where an investor becomes entitled to a net capital gain of the Fund that gain should be included in the investor's calculation of their overall net capital gain or loss for the financial year. Capital gains received from the Fund can be offset by any capital losses which an investor may have. An investor will be taxed on any net gain which they make for the financial year at their own individual marginal tax rate.

Where the Fund has owned a capital asset for more than 12 months it may be entitled to claim the benefit of the CGT discount to exempt 50% of the capital gain made by the Fund from tax. An investor who receives a distribution of a capital gain upon which the Fund has claimed the CGT discount is required to multiply that distribution by 2 and then apply any capital losses which they may have against the result. If the investor is an individual or a trust they may then claim the benefit of the CGT discount to exempt 50% of the resulting net capital gain from tax. Investors who are complying superannuation entities are only entitled to a CGT discount exemption of 33.33% of the resulting net capital gain. Investors who are companies are not entitled to claim the CGT discount and essentially the CGT discount claimed by the Fund at trust level is clawed back.

## **Tax-free and tax-deferred distributions**

The Fund may distribute certain non-assessable amounts to investors such as a return of capital.

In accordance with the current practice of the Commissioner of Taxation, an investor will not be subject to income tax on such distributions, however, such distributions may trigger CGT consequences for an investor. Broadly, where an investor receives a distribution of certain non-assessable amounts they are required to reduce their cost base in their investment in the Fund by an amount equal to the distribution. This reduction in cost base will later impact on the CGT consequences for an investor when they redeem or otherwise dispose of their investment in the Fund.

If the amount of the distribution exceeds an investor's cost base in their investment in the Fund, then the investor's cost base in their investment is reduced to nil and the excess is taxable to the investor as a capital gain. Where an investor has held their investment in the Fund for more than 12 months and they are an individual, trust or complying superannuation entity they may claim the benefit of the CGT discount to exempt part of the capital gain from tax (as noted above the CGT discount for trusts and individuals is 50% and the CGT discount for complying superannuation entities is 33.33%).

Significantly, distributions by the Fund of amounts which have been sheltered from tax by the CGT discount will not reduce an investor's cost base in their investment in the Fund as described in the preceding two paragraphs.

## **Dividends**

Distributions from the Fund may include an entitlement to imputation credits. Your particular circumstances (and those of the Fund) will be material to determining whether you are entitled to any rebate of tax equal to the imputation credit or in certain circumstances to a refund of excess credits.

The Fund may receive franked dividends from an Australian resident company. Where a dividend is fully or partly franked, the taxable income of the Fund is increased by an imputation credit amount. An investor will generally include their share of the dividend and imputation credit in their assessable income and be taxed on that amount at the investor's marginal tax rate.

If certain requirements are satisfied, including a 45 day holding period rule (that is, if an investor has held the units 'at risk' for 45 days), the investor may claim a tax offset equal to their share of the imputation credit attached to the dividend. This tax offset reduces the taxable amount of the dividend for the investor. Excess tax imputation credits may be refundable where an investor's marginal tax rate is less than the 30% corporate tax rate and they are able to claim the tax offset. The investor's personal situation and the circumstances of the Fund will be relevant in determining whether the holding period rule is satisfied.

## Foreign income

Income received by the Fund from sources outside Australia may be subject to tax in the country of source. If a distribution includes foreign income, resident investors may be entitled to claim a credit against Australian tax in respect of their share of such foreign tax paid.

Where foreign tax is payable by the Responsible Entity of the Fund, foreign tax credits (FTCs) are potentially available for an investor in respect of tax paid by the Responsible Entity of the Fund. This is because the credits effectively flow through to the investors.

Broadly speaking, FTCs are creditable against Australian tax payable on foreign source income, and reduce the Australian tax payable. Previously, excess FTCs were not refunded, but could be carried forward for up to 5 years.

However, the *Tax Laws Amendment (2007 Measures No 4) Act 2007* received Royal Assent on 24 September 2007. This Act has amended the income tax law to repeal the existing rules and replace them with new simplified foreign income tax offset rules. The amendments also include transitional rules for the treatment of existing quarantined foreign losses and credits.

The amendments allow taxpayers to claim relief for foreign income taxes paid on an amount included in their assessable income. Further, the amendments deem the taxpayer to have paid foreign income tax when in fact it has been paid by someone else (for example, if the foreign income tax has been withheld at its source). Importantly, the new rules do not allow excess FTCs to be carried forward.

## Disposal of interests

Under the capital gains tax provisions, any taxable capital gains arising on redeeming, switching or transferring of your interests may form part of your assessable income.

Broadly, an investor's capital gain from the redemption or disposal of their investment in the Fund is equal to difference between the capital proceeds they receive from the redemption or disposal and their cost base in the investment (such a cost base may be reduced by non-assessable distributions which they may receive from the Fund – see the earlier discussion regarding tax-free and tax-deferred distributions).

Investors who are individuals, trusts or complying superannuation entities and who have held their investment in the Fund for more than 12 months prior to disposal or redemption, may be able to claim the benefit of the CGT discount. Investors who are companies cannot claim the CGT discount.

## Providing your TFN or ABN

Investors are not required by law to provide the Fund with an Australian Tax File Number (**TFN**) or Australian Business Number (**ABN**), but it is recommended that one or the other be provided. If neither is provided, there may be a deduction of tax at the highest personal rate, plus the Medicare levy, from any distribution.

## Taxation of Financial Arrangements

The *Tax Laws Amendment (Taxation of Financial Arrangements) Bill 2007* was introduced to the House of Representatives on 20 September 2007, which proposes to enact a new regime for the taxation of financial arrangements (**TOFA**).

The taxation of your holding and disposal of units in the Fund may be affected by this proposed TOFA regime. The Government proposes that the TOFA regime will, as a general rule, apply prospectively to financial arrangements acquired after 1 July 2009.

You should seek your own advice as to the possible application of the TOFA regime to your investment in the Fund.

## GST and Stamp Duty

The issue, redemption or disposal of units in the Fund and receipt of distributions will not be subject to GST.

Under current laws, the acquisition of units by an investor and disposal of Units by an investor (either by sale of the Units by the investor or redemption of the units by the Fund or otherwise) should not be liable to stamp duty, provided that at all times, the Fund's investments are all interests in securities quoted on a recognised securities exchange.

## Privacy

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By applying for units in the Fund you consent and agree to information about you being obtained and used by Fundhost. Fundhost will collect and use your information in accordance with their Privacy Policy, a copy of which is available free of charge from Fundhost.

If you fail to provide us with the required information or if you provide us with incomplete or inaccurate information Fundhost may not be able to provide you with the products or services you are seeking within the time periods contemplated in this PDS.

Personal information about you is used to administer your investment in the Fund and also to conduct research.

Your information won't be disclosed unless:

- the law requires,
- Fundhost consider that your financial adviser needs the information, or
- Fundhost needs it to send you promotional material ~ if you don't want this, tell us in the application form or contact Fundhost at any time.

Fundhost may provide your personal information confidentially to external service providers including custodians, auditors, taxation and legal advisers and information technology consultants.

Fundhost will disclose information if required by law to do so (including under anti-money laundering and counter-terrorism financing legislation).

Unless you advise otherwise (either in the application form or by contacting Fundhost), access to your personal information to related parties of Fundhost or that information to could be used inform you of products and services offered by any related parties.

If you fail to provide the required information or if you provide incomplete or inaccurate information Fundhost may not be able to provide you with the products or services you are seeking.

If you think any of the details that Fundhost holds are wrong or out of date contact them and they will correct them. You can always access the personal information Fundhost hold about you by contacting them.

## Anti-money laundering and counterterrorism financing

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In order for Fundhost to meet its obligations under anti-money laundering, counter-terrorism legislation or taxation legislation, further information may be required from you regarding your identity, the source of your funds and similar matters. Fundhost is required to verify that information by sighting appropriate documentation. Records of the information obtained will be kept and may be required by law to be disclosed. Otherwise the information will be kept confidential. By applying for units through the PDS, you also agree that Fundhost may in its absolute discretion determine not to issue units to you, may cancel units which have been issued to you or may redeem any units issued to you if Fundhost believe such action to be necessary or desirable in light of its obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* or related legislation.

