

BT External International Shares 11 enhanced disclosure for hedge funds – February 2014

The Australian Securities and Investments Commission (ASIC) has issued a set of benchmarks and disclosure principles, contained in ASIC Regulatory Guide 240: *Hedge Funds: Improving disclosure* (RG 240), which is aimed at helping investors understand and assess hedge funds.

The disclosure benchmarks and principles set out in RG 240 apply to the Wrap Essentials Investment Fund investment option listed below, which is offered through Wrap Essentials and Super Wrap Essentials (together, Wrap Essentials).

- BT External International Shares 11 (ARSN 140 396 756) the Investment Option referred to as BlackRock Global Allocation (the Fund).

The responsible entity of the Fund is Westpac Financial Services Limited (WFSL) ABN 20 000 241 127, AFSL 233 716 (WFSL).

The Fund will fall within the definition of a 'fund of hedge funds' because it invests in another fund, BlackRock Global Allocation Fund ARSN 114 214 701 (the Underlying Fund), which has been identified as a hedge fund for the purposes of RG 240.

Investors should review this information in conjunction with the Wrap Essentials Investment Funds Product Disclosure Statement ("PDS") dated 27 November 2009 as amended by the Supplementary Product Disclosure Statement ("SPDS") dated 16 March 2010, the Second SPDS dated 1 July 2010, the Third SPDS dated 20 March 2012 and the Fourth SPDS dated 1 July 2013.

What additional information should I expect?

ASIC requires a responsible entity of a fund of hedge funds to enhance existing disclosure by providing specific information regarding how the fund's assets are valued, the periodic reporting it will provide and the relevant details set out in the disclosure principles outlined under RG240.

Enhanced disclosure for the Fund

The table in *Section 1* below summarises the benchmarks and principles relevant to the Fund, for which WFSL is the responsible entity. The information relevant to the Underlying Fund is set out separately in *Section 2: Underlying Fund Information*.

Section 1: Fund information

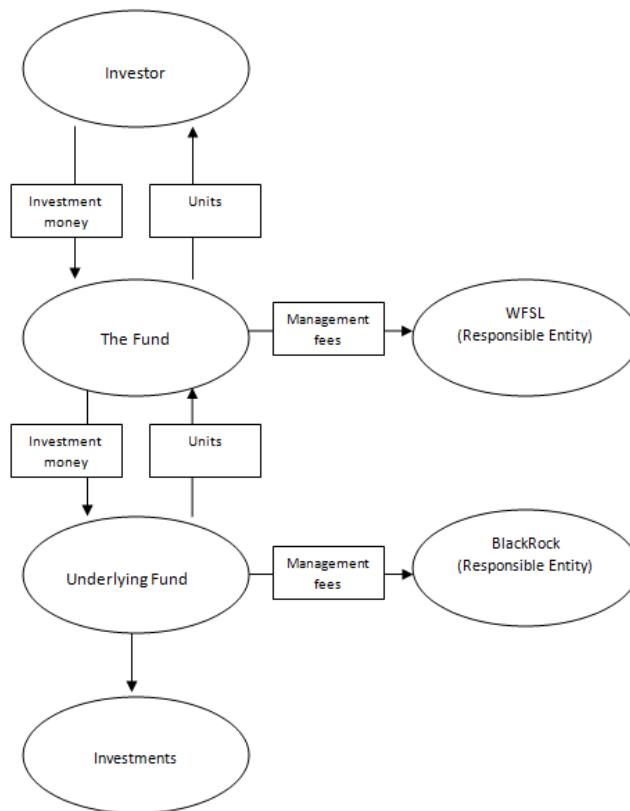
Disclosure benchmarks

Benchmark	Description
1. Valuation of assets	<p>The Fund's underlying non-exchange traded assets are not valued by an independent administrator or independent valuation service provider considering the Fund invests wholly into the Underlying Fund.</p> <p>Refer to the Unit prices section on pages 83 and 84 of the PDS for further information.</p> <p>Refer to page 5 of this document for further information on the valuation of assets for the Underlying Fund.</p>

2. Periodic reporting	<p>WFSL implements a policy to provide monthly and annual reports to investors on certain key information in relation to the Fund. The monthly reports are available through your financial adviser, via investorwrap.com.au or by contacting Client Relations. Annual financial reports are available at bt.com.au.</p> <p>Refer to the Additional disclosure information section on page 84 of the PDS for further information.</p> <p>WFSL will also make the periodic disclosure issued by the responsible entity of the Underlying Fund on key information relating the Underlying Fund available to investors via Wrap Online.</p> <p>Refer to page 6 of this document for further information on the periodic reporting for the Underlying Fund.</p>
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Disclosure principles

Disclosure principles	Description
1. Investment strategy	<p>The Fund invests wholly into the Underlying Fund and therefore has the same investment strategy as the Underlying Fund.</p> <p>WFSL focuses on a range of factors including skills of key staff, organisational strength and stability, investment process and philosophy, business management, service capabilities and technology when selecting an underlying fund in which to invest. WFSL is responsible for selecting, monitoring and, where appropriate, replacing these underlying investment managers. WFSL may also use the services of specialist investment consultants to assist where we consider it appropriate.</p> <p>Refer to the Manager selection process section, the Changes to investment managers section and the Change to Investment Options details section on page 8 of the PDS for further information.</p> <p>Refer to page 6 of this document for further information on the investment strategy for the Underlying Fund.</p>
2. Investment manager	<p>WFSL is the responsible entity for the Fund. The Fund invests wholly into the Underlying Fund. The investment manager and responsible entity for the Underlying Fund is BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230523 (BlackRock). Refer to page 15 of this document for further information on the investment manager and responsible entity for the Underlying Fund.</p> <p>WFSL may remove or replace the investment manager by making a full redemption of units in the Underlying Fund, where the Underlying Fund is open to redemptions. Refer to the Changes to investment managers section and the Changes to Investment Options details section on page 8 of the PDS for further information.</p>
3. Fund structure	<p>The Fund invests wholly into the Underlying Fund. Please refer to the below diagram for the investment structure.</p>



Amounts we may receive

We may receive fees as payments back from the investment managers of the underlying funds of up to 0.75% (GST inclusive) of the total amount invested in the Underlying Fund. Any such payments are not additional to the fees payable by you and are retained by us.

Key service providers:

Key service providers	Scope of service	Jurisdiction
BlackRock Investment Management (Australia) Limited (BlackRock)	Investment manager and responsible entity of the Underlying Fund	Australia
HSBC Custody Nominees (Aus) Ltd (HSBC)	Custodian of the Fund	Australia
PricewaterhouseCoopers (PwC)	Auditor of the Fund	Australia

WFSL have entered into separate agreements with each key service provider which sets out the terms and conditions of the relationship, as well as any consequences of any breaches to the terms of the relationship.

WFSL has in place procedures to periodically monitor key service providers with the aim of ensuring services are rendered are in accordance with the service agreements and service level standards.

	<p>Related party arrangements There are no related party arrangements for the Fund.</p> <p>Material arrangements There are no material arrangements in connection with the Fund that are not on arm's length terms.</p> <p>Risks The Fund invests wholly in the Underlying Fund. This means that it shares the same risks as the Underlying Fund.</p> <p>Refer to page 18 of this document for further information on the fund structure for the Underlying Fund.</p>
4. Valuation, location and custody of assets	<p>The Fund invests wholly in the Underlying Fund. Unit prices for the Underlying Fund are received from the responsible entity of the Underlying Fund and used to value the assets of the Fund.</p> <p>WFSL has appointed HSBC as the custodian of the Fund to hold the assets of the Fund (the units in the Underlying Fund) on the terms set out in the custody agreement between the parties.</p> <p>Refer to the Unit prices section on pages 83 and 84 of the PDS for further information.</p> <p>Refer to page 20 of this document for further information on the valuation, location and custody of assets for the Underlying Fund.</p>
5. Liquidity	<p>During normal market conditions, WFSL expects to be able to realise at least 80% of the Fund's assets at the value ascribed to those assets in calculating the Fund's net asset value, within 10 days.</p> <p>During periods of abnormal market conditions or extreme volatility, normally liquid assets may become illiquid meaning that it may not be possible to realise these investments in sufficient time to pay Fund withdrawal proceeds. If this occurs, we may suspend withdrawals from the Fund for the protection of investors of the Fund.</p> <p>Refer to the Liquidity risk section on page 5 of the PDS for further information.</p> <p>Refer page 20 of this document for further information on the liquidity disclosure for the Underlying Fund.</p>
6. Leverage	<p>The Fund does not use leverage. However, it may be used by the Underlying Fund. Refer to page 20 of this document for further information on the use of leverage by the Underlying Fund.</p>
7. Derivatives	<p>The Fund does not use derivatives. However, it may be used by the Underlying Fund. Refer to page 22 of this document for further information on the use of derivatives by the Underlying Fund.</p>
8. Short selling	<p>The Fund does not use short selling. However, it may be used by the Underlying Fund. Refer to page 24 of this document for further</p>

	information on the use of short selling by the Underlying Fund.
9. Withdrawals	<p>During normal market conditions, there are no significant risk factors or limitations that may affect the ability for investors to withdraw.</p> <p>During periods of abnormal market conditions or extreme volatility, normally liquid assets may become illiquid meaning that it may not be possible to realise these investments in sufficient time to pay Fund withdrawal proceeds. If this occurs, we may suspend withdrawals from the Fund for the protection of investors of the Fund.</p> <p>Investors can exercise their right to withdraw by providing instructions to their financial adviser or by contacting Client Relations.</p> <p>Refer to the Processing times for applications and withdrawals section on page 83 and the Restrictions section on page 86 of the PDS for further information.</p>

Section 2: Underlying Fund Information

Information from the responsible entity of each underlying wholesale hedge fund

The table below summarises the benchmarks and principles relevant to the BlackRock Global Allocation Fund ARSN 114 214 701 (the Underlying Fund). We have relied on information provided by the responsible entity of the Underlying Fund, being BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230523 (BlackRock), to prepare this table. The responsible entity of the Underlying Fund has consented to the relevant statements relating to the responsible entity and the Underlying Fund in the table below and has not withdrawn its consent before the date of this disclosure notice.

Disclosure benchmarks

Benchmark	Description
1. Valuation of assets	<p>BlackRock meets the ASIC benchmark except in certain (generally infrequent) circumstances (as set out below) and implements a policy that requires the valuation of the Underlying Fund's assets that are not exchange traded be provided by an independent administrator or an independent valuation service provider.</p> <p>In certain (generally infrequent) circumstances where a valuation cannot be obtained from an independent administrator or an independent valuation service provider for an asset, BlackRock can value the asset on another basis in accordance with its valuation policy. The valuation process depends on the nature of the asset and will involve having regard to relevant factors, to address any risks of lack of independence in valuations and related party conflicts of interest, which may include referring the matter to an internal BlackRock committee.</p>
2. Periodic reporting	BlackRock meets the ASIC benchmark and implements a policy to report on the following Underlying Fund information on an annual basis:

	<ul style="list-style-type: none"> ▶ the actual allocation to each asset type held by the Underlying Fund; ▶ the liquidity profile of the Underlying Fund’s assets; ▶ the maturity profile of the Underlying Fund’s liabilities; ▶ the leverage ratio of the Underlying Fund; ▶ derivative counterparties engaged; ▶ annual investment returns; and ▶ changes to key service providers and their related party status. <p>A copy of the report is available free of charge from BlackRock’s website at www.blackrock.com.au.</p> <p>On a monthly basis the following Underlying Fund information will also be made available free of charge from BlackRock’s website at www.blackrock.com.au:</p> <ul style="list-style-type: none"> ▶ the current total net asset value (“NAV”) of the Underlying Fund and the redemption value of a unit of the Underlying Fund as at the date on which the total NAV was calculated; ▶ changes to key service providers and their related party status; ▶ the net return on the Underlying Fund’s assets after fees, costs and taxes; ▶ any material change in the Underlying Fund’s risk profile; ▶ any material change in the Underlying Fund’s strategy; and ▶ any change in the individuals playing a key role in investment decisions for the Underlying Fund.
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Disclosure principles

Disclosure principles	Description
1. Investment strategy	<p>How BlackRock manages your money</p> <p>In making investment decisions, the Underlying Fund’s investment manager tries to identify the long term trends and changes that could benefit particular markets and/or industries relative to other markets and industries. A variety of factors are considered when selecting the markets, such as the rate of economic growth, natural resources, capital reinvestment and the social and political environment.</p> <p>In deciding between equity and debt investments, the investment manager looks at a number of factors, such as the relative opportunity for capital appreciation, capital recovery risk, dividend yields and the level of interest rates paid on debt securities of different maturities.</p> <p>The Underlying Fund will invest in “junk” bonds, corporate loans and distressed securities only when the investment manager believes that they will provide an attractive total return, relative to their risk, as compared to higher quality debt securities. Similarly, the Underlying Fund will invest in distressed securities when the investment manager believes they offer significant potential for higher returns or can be exchanged for other securities that offer this potential. However, there can be no</p>

assurance that the Underlying Fund will generally achieve these returns or that the issuer will make an exchange offer or adopt a plan of reorganisation.

What is the Underlying Fund's investment strategy?

The Underlying Fund seeks to achieve its objective by investing in both equity and debt securities, including money market securities and other short-term securities or instruments, of issuers located around the world. There is no limit on the percentage of assets the Underlying Fund can invest in a particular type of security. Generally, the Underlying Fund seeks diversification across markets, industries and issuers as one of its strategies to reduce volatility. This flexibility allows the Underlying Fund to look for investments in markets around the world that the investment manager believes will provide the best relative asset allocation to meet the Underlying Fund's investment objective.

The Underlying Fund's investment flexibility allows the Underlying Fund's investment manager to create a portfolio of assets that, over time, tends to be relatively balanced between equity and debt securities and that is widely diversified among many individual investments. The Underlying Fund may invest in both developed and emerging markets.

In addition to investing in non U.S. securities, the Underlying Fund actively manages its exposure to non U.S. currencies through the use of forward currency contracts and other currency derivatives. From time to time, the Underlying Fund may own non U.S. cash equivalents or non U.S. bank deposits as part of the Fund's investment strategy. The Underlying Fund will also invest in non-U.S. currencies, however, the Underlying Fund may underweight or overweight a currency based on the investment manager's outlook.

The fully managed investment approach of the Underlying Fund provides it with the opportunity to benefit from anticipated shifts in the relative performance of different types of securities and different capital markets. For example, at times the Underlying Fund may emphasise investments in equity securities in anticipation of significant advances in the stock markets and at times may emphasise debt securities in anticipation of significant declines in interest rates. Similarly, the Underlying Fund may reduce its exposure to U.S. markets in favour of other international markets when such markets are expected to outperform the U.S. markets. The Underlying Fund will seek to identify longer-term structural or cyclical changes in the various economies and markets of the world that are expected to benefit certain capital markets and certain securities in those markets to a greater extent than other investment opportunities.

In determining the allocation of assets among capital markets, the investment manager will consider, among other factors, the relative valuation, condition and growth potential of the various economies, including current and anticipated changes in the rates of economic growth, rates of inflation, corporate profits, capital reinvestment, resources, self-sufficiency, balance of payments, governmental deficits or

surpluses and other pertinent financial, social and political factors which may affect such markets. In allocating among equity, debt and money market securities within each market, the investment manager will also consider the relative opportunity for capital appreciation of equity and debt securities, dividend yields and the level of interest rates paid on debt securities of various maturities.

In selecting securities not denominated in U.S. Dollars, the investment manager will consider, among other factors, the effect of movement in currency exchange rates on the U.S. Dollar value of such securities. An increase in the value of a currency will increase the total return to the Underlying Fund of securities denominated in such currency. Conversely, a decline in the value of the currency will reduce the total return. The Underlying Fund may seek to hedge all or a portion of its non U.S. securities through the use of forward foreign currency contracts, currency options, futures contracts and options thereon.

Equity selection

Within the portion of the Underlying Fund's portfolio allocated to equity securities, the investment manager will seek to identify the securities of companies and industry sectors that are expected to provide high total return relative to alternative equity investments. The Underlying Fund generally will seek to invest in securities that are believed to be undervalued.

The Underlying Fund may seek to invest in the stock of smaller or emerging growth companies that are expected to provide a higher total return than other equity investments. Investing in smaller or emerging growth companies involves greater risk than investing in more established companies. Such companies are characterised by rapid historical growth rates, above-average returns on equity or special investment value in terms of their products or services, research capabilities or other unique attributes. The Underlying Fund's investment manager will seek to identify small and emerging growth companies that possess superior management, marketing ability, research and product development skills and sound balance sheets.

Fixed income selection

The Underlying Fund can invest in all types of debt securities. The Underlying Fund may also invest up to 35% of its total assets in "junk" bonds, corporate loans and distressed securities. These securities offer the possibility of relatively higher returns but are significantly riskier than higher rated debt securities. The investment manager considers the ratings assigned by Standard & Poor's and Moody's Investor Service, Inc. as one of several factors in its independent credit analysis of issuers.

Performance benchmark

The benchmark for the Underlying Fund provides a performance target against which the Underlying Fund's performance is measured over a set period of time. As the Underlying Fund is a diversified fund, there is no one relevant index to provide a benchmark, so the benchmark consists of

a weighted average of the Australian Dollar hedged returns provided by market indices for relevant asset classes.

Market indices for the relevant asset classes	
Equities	
S&P 500 Index	36%
FTSE World (ex US) Index	24%
Total Equities	60%
Fixed income	
BofA Merrill Lynch Current 5-year US Treasury Index	24%
Citigroup Non-US Dollar World Government Bond Index	16%
Total Fixed Income	40%

The Underlying Fund's benchmark acts as a reference guide for performance and as a "neutral" asset mix for allocation decisions.

Key dependencies underlying the Underlying Fund's investment strategy

The Underlying Fund is highly diversified, with a flexible investment strategy, which means that its success is not dependent on any particular asset class, geography or sector. The success of the Underlying Fund is, however, dependent on the ability of the Underlying Fund's investment manager to implement an investment strategy that allocates Underlying Fund assets to securities, geographies and sectors that will outperform the markets, the relevant benchmark indices or the securities selected by other funds with similar investment objectives and investment strategies. Should the Underlying Fund's investment manager allocate assets to underperforming securities, geographies or sectors, the Underlying Fund may not meet its investment objective.

In addition, while the Underlying Fund does benefit from the BlackRock Group's global expertise and risk management practices, it is not always possible to eliminate all of the risks applicable to the Underlying Fund. An exposure to certain risks could cause the Underlying Fund to underperform.

What are the risks of investing in the Underlying Fund?

Before you make an investment decision it is important to identify your investment objectives and the level of risk that you are prepared to accept.

This may be influenced by:

- ▶ the timeframe over which you are expecting a return on your investment and your need for regular income versus long-term capital growth;
- ▶ your level of comfort with volatility in returns; or
- ▶ the general and specific risks associated with investing in particular funds.

General risks

All investments have an inherent level of risk. Generally there is a trade-

off between higher expected returns for higher expected risk – represented by the variability of fund returns.

The value of your investment will fluctuate with the value of the underlying investments in the Underlying Fund. Investment risk may also result in loss of income or capital invested and possible delays in repayment. You could receive back less than you initially invested and there is no guarantee that you will receive any income.

What about the specific risks of the Underlying Fund?

The specific risks for the Underlying Fund may include:

Regulatory and business risk: Changes in corporate, taxation or other relevant laws, regulations or rules may adversely impact your investment. For example, such changes may adversely impact a fund's ability to execute certain investment strategies which could have a material effect on a fund's performance. The laws affecting registered managed investment schemes may also change in the future.

Market risk: Economic, technological, political or legislative conditions and even market sentiment, can (and do) change and this can mean that changes in the value of investment markets can affect the value of the investments in a fund.

Small cap and emerging growth securities risk: The Underlying Fund may be exposed to securities of small cap and emerging growth companies. Smaller capitalisation companies may, from time to time and especially in falling markets, become less liquid and experience short-term price volatility. They may also be less financially secure than larger, more established companies and depend on a small number of key personnel, which increases the risk of the company's failure if a product fails, management changes or if there are other adverse developments.

Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Adverse impacts may arise internally through human error, technology, or infrastructure changes, or through external events such as third party failures or crisis events. The BlackRock Group has procedures in place to manage these risks and, as much as possible, monitor the controls within these procedures to ensure operational risks are adequately managed.

Mid cap securities risk: The securities of mid cap companies generally trade in lower volumes and are generally subject to greater and less predictable price changes than the securities of larger capitalization companies.

Liquidity risk: The Underlying Fund may be exposed to securities which are in practice infrequently traded, for which typical daily volumes traded are small, or which by their very nature are less liquid than public registered securities. It may not be possible to sell such securities when it is desirable to do so or to realise what the manager perceives to be their

fair value in the event of a sale. These circumstances could also impair a fund's ability to make distributions to a redeeming unit holder in a timely manner and a fund may need to consider suspending redemptions.

The BlackRock Group aims to reduce this risk by understanding the liquidity characteristics of fund securities and by planning trading so as to minimise the adverse consequences of low liquidity.

Short-selling risks: The Underlying Fund may engage in short selling. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, as the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating any loss.

When a fund enters into a short position through a derivative contract, the fund may be subject to the risks described within this section of the document under the title "Derivative risk".

The BlackRock Group seeks to manage the risks associated with short selling through its portfolio construction processes. Short positions are rebalanced periodically, so as to reduce the risk of substantial changes in the price of the short security and exposure limits may be imposed with regards to single stock positions, in order to mitigate potential losses.

Collateral for borrowing securities: As part of a short sale transaction, a fund ("Borrower") will borrow securities from a securities lender ("Lender"). The Borrower is required to transfer collateral, usually in the form of cash or securities ("Collateral") to the Lender. The Collateral transferred to the Lender is not required to be segregated from the Lender's other assets and may be dealt with, lent, disposed of, pledged or otherwise used by the Lender for its own purposes. In the event of the insolvency of the Lender, the Borrower will rank as an unsecured creditor of the Lender in relation to any Collateral transferred to the Lender and the Borrower may not be able to recover amounts due to it in respect of such Collateral in full. This means that the Borrower has exposure to counterparty risk with the Lender of any short sale transaction to which it is exposed.

Commodities related investments risks: Exposure to the commodities markets may subject a fund to greater volatility than investments in traditional securities. The value of commodity-linked derivative investments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, embargoes, tariffs and international economic, political and regulatory developments.

Precious metal related securities risk: Prices of precious metals and of precious metal related securities historically have been very volatile. The high volatility of precious metal prices may adversely affect the financial condition of companies involved with precious metals. The production and sale of precious metals by governments or central banks or other larger holders can be affected by various economic, financial, social and political factors, which may be unpredictable and may have a significant impact on the prices of precious metals. Other factors that may affect the prices of precious metals and securities related to them include changes in inflation, the outlook for inflation and changes in industrial and commercial demand for precious metals.

Risks of investing in fixed income securities: In general, cash and fixed income securities can provide more certainty in income flows and can offer greater capital price stability than alternative investments such as shares and property. However, there are a number of risks associated with investment in fixed income securities that can result in significant variability in investment returns and a loss of income or capital value.

These include:

- ▶ Interest rate risk – the risk borne by debt securities when interest rates fluctuate;
- ▶ Credit risk – a deterioration of credit quality (e.g. an issuer credit downgrade or credit event leading to widening of credit spreads of that issuer) of an underlying investment will adversely impact the value of such investment; and
- ▶ Counterparty risk – a credit risk associated with the counterparty to a transaction, who may be unable to fulfil its obligations.

Individual investment risk: Individual investments we buy or sell, like shares and fixed income securities, can and do fall in value for many reasons. The level of returns for individual investments will vary and the price can experience volatile movements. Dividend payments from shares may also vary over time.

Derivative risk: The Underlying Fund may be exposed to financial derivatives including but not limited to futures, options, indexed securities, swaps and forward contracts. Exposure to investments in derivatives can cause a fund to make gains or incur losses.

Derivative transactions may be subject to the risk that a counterparty to the transaction will wholly or partially fail to perform their contractual obligations under the arrangement (including failing to meet collateral requirements under the arrangement). Additionally, OTC markets are not guaranteed by an exchange or clearing corporation and generally do not require payment of margin, to the extent that a fund has unrealised gains in such instruments or has deposited collateral with its counterparty that fund is at risk that its counterparty will become bankrupt or otherwise fail to honour its obligations.

The BlackRock Group attempts to minimise these risks by engaging in transactions in derivatives only with financial institutions that have substantial capital or that have provided a third-party guarantee or other credit enhancement.

Distressed securities risk: Distressed securities are speculative and involve substantial risks in addition to the risks of investing in junk bonds. Investors in such securities will generally not receive interest payments on the distressed securities and may incur costs to protect their investment. In addition, distressed securities involve the substantial risk that the principal will not be repaid. These securities may present a substantial risk of default or may be in default at the time of investment. An investor in distressed securities may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings. In any reorganisation or liquidation proceeding relating to a portfolio company, the investor of distressed securities may lose their entire investment or may be required to accept cash or securities with a value less than its original investment. Distressed securities and any securities received in an exchange for such securities may be subject to restrictions on resale.

Warrants risk: If the price of the underlying stock does not rise above the exercise price before the warrant expires, the warrant generally expires without any value and the holder of the warrant loses any amount it paid for the warrant. Thus, investments in warrants may involve substantially more risk than investments in common stock. Warrants may trade in the same markets as their underlying stock; however, the price of the warrant does not necessarily move with the price of the underlying stock.

Real estate related securities risk: The main risk of real estate related securities is that the value of the underlying real estate may go down. Many factors may affect real estate values. These factors include both the general and local economies, the amount of new construction in a particular area, the laws and regulations (including zoning and tax laws) affecting real estate and the costs of owning, maintaining and improving real estate. The availability of mortgages and changes in interest rates may also affect real estate values. If an investor's real estate related investments are concentrated in one geographic area or in one property type, the investor will be particularly subject to the risks associated with that area or property type.

REIT investment risk: Investments in REITs involve unique risks. REITs may have limited financial resources, may trade less frequently and in limited volume and may be more volatile than other securities.

Leverage: Transactions entered into by the Underlying Fund may give rise to a form of economic leverage. The exposure of a leveraged portfolio to movements in the instruments and markets in which it invests can be greater than the value of the assets within the portfolio. Therefore, if a leveraged portfolio generates a positive return, the returns will be greater than the returns generated by an equivalent unleveraged portfolio.

Similarly, if the investments generate a negative return, the losses will be greater than the losses generated by an equivalent unleveraged portfolio.

Junk bonds risk: Although junk bonds generally pay higher rates of interest than investment grade bonds, junk bonds are high risk investments that may cause income and principal losses.

Investing in foreign markets: The Underlying Fund may be exposed to securities or derivative instruments issued in foreign markets and as such faces risks associated with:

- ▶ differences between countries in relation to accounting, financial reporting, legal, regulatory, pricing, liquidity and settlement and clearance procedures;

- ▶ currency risk, the risk that foreign currencies change in value relative to the Australian Dollar which may affect the Underlying Fund's investment returns. While passive currency management may be undertaken, it may not be possible to perfectly match performance of the hedging in the Underlying Fund relative to that of the benchmark. In addition, active currency management may be undertaken from time to time by modifying the Underlying Fund's currency exposures with the aim of taking advantage of movements in currency markets. The impact of currency management on the Underlying Fund's return is uncertain, cannot be guaranteed and can result in capital losses; and

- ▶ investing in emerging markets, such markets may have lower trading volumes, less liquidity and potentially greater political instability.

Risk management

The Underlying Fund benefits from the BlackRock Group's global expertise and risk management practices, with investment strategies employed across the BlackRock Group being continuously monitored and assessed.

Asset exposures are constantly monitored to ensure all BlackRock Group funds remain within permitted investment parameters. Operating and investment processes are continuously reviewed through a combination of internal and external audit, regular compliance monitoring, management self-assessment procedures and risk management oversight.

Management of key controls and performance measurement is accomplished through routine reporting on investment activities. The BlackRock Group's automated systems produce reports which enable the ongoing monitoring of trading and investment activity against assigned limits, including individual trader and counterparty limits. Transactions that may result in exceptions to the established limits must have appropriate approval in accordance with internally documented policies.

Departmental oversight

The BlackRock Group has operational functions which help in the implementation of its risk management framework, including:

- ▶ **Risk and Quantitative Analysis:** Monitors the continuing development of process controls and functional segregation in conjunction with relevant business units to ensure that these remain robust and

	<p>appropriate to the needs of the business. The Risk and Quantitative Analysis Team also measure and monitor all BlackRock Group funds.</p> <p>► Legal and Compliance: Responsible for the identification, communication and control of applicable legislation and restrictions. Compliance staff also conduct periodic compliance reviews of key processes and work closely with management to develop suitable controls.</p> <p>► Internal Audit: Responsible for the review of internal processes and controls.</p> <p>► Counterparty & Concentration Risk Group: Responsible for managing counterparty risk across the BlackRock Group. The Counterparty and Concentration Risk Group monitors and assesses counterparty exposures arising from a wide range of financial instruments.</p> <p>Changes to the Underlying Fund’s investment strategy BlackRock undertakes continuous research and development of the Underlying Fund’s investment strategy, which may result in changes to the way the Underlying Fund is run. Investors in the Underlying Fund will be notified of any such changes in accordance with BlackRock’s obligations under the Corporations Act.</p>
2. Investment manager	<p>About the investment manager BlackRock is the responsible entity of the Underlying Fund and has delegated investment management responsibility to BlackRock Investment Management, LLC. BlackRock is licensed by ASIC, which is responsible for regulating the operation of managed investment schemes like the Underlying Fund.</p> <p>BlackRock and BlackRock Investment Management, LLC are both subsidiaries of BlackRock, Inc.[®] (“BlackRock, Inc.”). BlackRock, Inc. is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide.</p> <p>BlackRock, Inc., through its subsidiaries (the “BlackRock Group”) offers products that span the risk spectrum to meet clients’ needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, managed funds, iShares[®] (exchange-traded funds) and other pooled investment vehicles.</p> <p>BlackRock, Inc. also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions[®].</p> <p>Headquartered in New York City, BlackRock, Inc. is a major presence in key global markets, including North and South America, Europe, Asia, Australia, the Middle East and Africa. For additional information, please visit BlackRock’s website at www.blackrock.com.au.</p> <p>The implementation of the investment strategy detailed in this document is considered an institutional BlackRock capability, meaning BlackRock</p>

considers that it does not rely on the involvement of any particular individuals.

As the investment manager of the Underlying Fund, BlackRock Investment Management, LLC is responsible for managing assets of the Underlying Fund. The responsibilities and obligations of the Underlying Fund's investment manager are governed by Underlying Fund's constitution, the investment management arrangement between the Underlying Fund and BlackRock Investment Management, LLC and any applicable laws or regulations.

The Constitution of the Underlying Fund contains a number of provisions relating to the rights, terms, conditions and obligations imposed on both you and us.

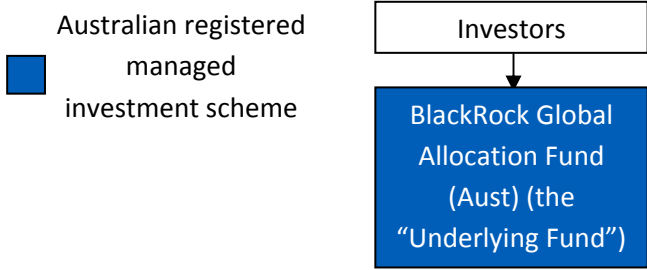
Some of the main provisions under the Constitution of the Underlying Fund which relate to the rights of a unit holder of the Underlying Fund include:

- ▶ a unit holder's right to share in the Underlying Fund income and how BlackRock calculate it;
- ▶ a unit holder's right to withdraw from the Underlying Fund and what a unit holder is entitled to receive when they withdraw or if the Underlying Fund is wound up;
- ▶ the nature of the units and classes of units (if applicable); and a unit holder's rights to attend and vote at a meeting of unit holders – these mainly reflect the requirements of the Corporations Act, which also deals with unit holders rights to requisition or call a meeting; and
- ▶ resolutions passed by a requisite majority at a meeting of unit holders are binding on all unit holders.

Under the Constitution of the Underlying Fund the liability of each unit holder is generally limited to its investment in the Underlying Fund. A unit holder of the Underlying Fund is not required to indemnify BlackRock or its creditors in respect of the Underlying Fund. However, no complete assurance can be given in this regard, as the ultimate liability of a unit holder has not been finally determined by the courts.

Others provisions include:

- ▶ when BlackRock can terminate the Underlying Fund or reclassify units (if applicable) and what happens if BlackRock does;
- ▶ when BlackRock can amend the Underlying Fund's Constitution. Generally, BlackRock can only amend a constitution where BlackRock reasonably believes that the changes will not adversely affect a unit holder's rights as an investor. Otherwise, the Constitution can only be amended if approved by special resolution at a meeting of unit holders;
- ▶ BlackRock's right to refuse to accept applications for units or record any transfer of units without giving any reason;
- ▶ BlackRock's right to cancel units issued to a unit holder if cleared funds are not received by the Underlying Fund;
- ▶ BlackRock's right to deduct amounts owed to it by unit holders in the Fund from the withdrawal proceeds of such unit holders;
- ▶ BlackRock's broad powers to invest, borrow and generally manage the

	<p>Underlying Fund. BlackRock does not currently intend to borrow funds to acquire assets for the Underlying Fund, although this is permitted under the Underlying Fund’s Constitution. BlackRock may only borrow if BlackRock considers it to be in the best interests of unit holders;</p> <ul style="list-style-type: none"> ▶ subject to the Corporations Act, BlackRock are not liable to unit holders of the Underlying Fund for any loss suffered in any way relating to the Underlying Fund; and ▶ BlackRock are entitled to be indemnified out of the assets of the Underlying Fund for any liability incurred in properly performing and exercising our powers and duties in relation to the Underlying Fund. <p>BlackRock has appointed BlackRock Investment Management, LLC, a member of the BlackRock Group, pursuant to an investment management arrangement, to provide investment management services to the Underlying Fund. Provisions within the investment management agreement, which may affect you, may include:</p> <ul style="list-style-type: none"> ▶ the terms and scope of appointment of the investment manager; ▶ the powers of the investment manager and limitations placed on the investment manager in terms of carrying out its functions and duties under the investment management agreement; ▶ the indemnity provided by BlackRock to the investment manager; ▶ the investment manager's entitlement to receive a management fee; ▶ the liability of the BlackRock under the investment management agreement; and ▶ provisions governing the termination the investment management agreement. BlackRock is entitled to terminate the investment management agreement at any time by written instruction to the investment manager (or upon default of the investment manager in the circumstances set out in the investment management agreement), and such termination will not impact any claim by the investment manager for accrued management fees up to the date of termination.
<p>3. Underlying Fund structure</p>	<p>What does the Underlying Fund invest in?</p> <p>Provided below is a diagram showing the key entities involved in the Underlying Fund’s investment structure as at the date of this document and the flow of investment money through the structure. Further information in respect of the direct assets held by the Underlying Fund is provided below.</p> <div style="text-align: center;">  <pre> graph TD Investors[Investors] --> Fund[BlackRock Global Allocation Fund (Aust) (the "Underlying Fund")] style Fund fill:#0070C0,color:#fff </pre> <p>A legend on the left shows a blue square next to the text "Australian registered managed investment scheme".</p> </div> <p>To achieve its investment objective the Underlying Fund invests directly in the following securities:</p> <p>Equity securities: The Underlying Fund can invest in all types of equity securities, including but not limited to, common stock, preferred stock,</p>

warrants, convertible securities and stock purchase rights of companies of any market capitalisation. The Underlying Fund may also invest in other collective investment vehicles, such as exchange traded funds, unit investment trust and open and closed ended funds (including those managed by or affiliated with a member of the BlackRock Group).

Debt securities: The Underlying Fund can invest in all types of debt securities, including but not limited to, government bonds, corporate bonds and convertible bonds, mortgage and asset backed securities and securities issued or guaranteed by certain international organisations such as the World Bank.

Cash and money market securities: The Underlying Fund can invest in cash deposits denominated in any currency, short-term fixed income securities, or other instruments including government securities, commercial paper and money market securities issued by commercial banks or depository institutions.

Other assets: The Underlying Fund may invest a portion of its assets in securities related to real assets (like real estate or precious metals-related securities) such as stock, bonds or convertible bonds issued by real estate investment trusts or companies that mine precious metals. The Underlying Fund may also invest in REITs.

The Underlying Fund may seek to provide exposure to the investment returns of real assets that trade in the commodity markets through investment in commodity-linked derivative instruments and investment vehicles that exclusively invest in precious metals, which are designed to provide this exposure without direct investment in physical commodities.

Throughout its history, the Underlying Fund has maintained a weighting in non U.S. securities, often exceeding the 40% Benchmark weighting and rarely falling below this allocation. Under normal circumstances, the Underlying Fund will continue to allocate a substantial amount (approximately 40% or more; unless market conditions are not deemed favourable, in which case the Underlying Fund would invest at least 30%) of its total assets in securities of (i) non U.S. government issuers, (ii) issuers organised or located outside the U.S., (iii) issuers which primarily trade in a market located outside the U.S., or (iv) issuers doing a substantial amount of business outside the U.S., which the Underlying Fund considers to be companies that derive at least 50% of their revenue or profits from business outside the U.S. or have at least 50% of their sales or assets outside the U.S.

The Underlying Fund will allocate its assets among various regions and countries, including the United States (but in no less than three different countries). For temporary defensive purposes the Underlying Fund may deviate very substantially from the allocations detailed in this PDS.

Asset allocation ranges (%) for the Underlying Fund			
Asset sector	Min.	Bench	Max.
Equities	0	60	100
Fixed income	0	40	100
Cash	0	0	100

The Underlying Fund is not bound by specific asset allocation ranges or diversification targets and has full flexibility to invest at any spectrum of its asset allocation range (as shown in the above table). Except as described in this document, the Underlying Fund has no geographic limits on where its investments may be located and assets may be located in any country of the world and denominated in any global currency.

Key service providers

A number of key service providers have been engaged to assist with the ongoing operation and administration of the Underlying Fund. A summary of key service providers is provided below.

The Underlying Fund has entered into separate agreements with each of the below key service providers, which set out the terms and conditions of the service provider’s appointment, where applicable, specified benchmarks and service levels, as well as the consequences of any breaches to the terms of the appointment. The BlackRock Group also monitors the services provided by key service providers through day-to-day dealings with these key service providers.

Custodian: Brown Brothers Harriman & Co.

A custodian provides custodial services to a responsible entity and is responsible for the safekeeping of the assets of a fund.

A custodian’s role is generally limited to holding the assets of a fund and acting on behalf of the responsible entity and acting in accordance with instructions from the responsible entity (except in limited circumstances where the custodian has a discretion to act without instructions).

A custodian has no supervisory obligation to ensure that the responsible entity complies with its obligations as responsible entity of a fund. The responsible entity will also remain liable to unit holders for acts and omissions of the appointed custodian.

The custodian may change from time to time but must satisfy any relevant regulatory requirements.

Administrator: JP Morgan Chase Bank, N.A.

An administrator provides administration services to a fund including valuation and unit pricing, fund accounting, distribution preparation and preparation of financial statements.

Auditor: Deloitte Touche Tohmatsu

A fund must have an appointed independent auditor of the financial statements.

	<p>Prime broker: UBS A.G. The prime broker of a fund generally provides clearing, settlement, financing, stock borrowing, foreign exchange facilities and reporting services.</p> <p>Changes to key service providers The key service providers of the Underlying Fund may change from time to time. Investors will be notified of any such changes in accordance with our obligations under the Corporations Act.</p>
4. Valuation, location and custody of assets	<p>Valuation of assets Where assets of the Underlying Fund are not listed on a securities exchange, they are generally valued by an independent administrator or an independent valuation service provider.</p> <p>Location of assets Except as described in this document, the Underlying Fund has no geographic limits on where its investments may be located and assets may be located in any country of the world and denominated in any global currency.</p> <p>Custody of assets The Underlying Fund has engaged Brown Brothers Harriman & Co. as custodian.</p>
5. Liquidity	<p>The Underlying Fund is generally open for unit holder applications and redemptions on each Business Day (being a day other than a Saturday or Sunday on which banks are open for general banking business in Melbourne or Sydney).</p> <p>As at the date of this document, BlackRock reasonably expects, should the need arise, to be able to realise at least 80% of the assets of the Underlying Fund, at the value ascribed to those assets in calculating the Underlying Fund's NAV, within 10 days.</p>
6. Leverage	<p>Use of leverage While the constitution of the Underlying Fund allows borrowing, it is BlackRock's intention that no borrowing arrangements will be entered into by the Underlying Fund other than temporary overdrafts which may be used as a means of managing certain cash flows. The Underlying Fund will, however, obtain leveraged market exposure through its use of derivatives and as a result of any short selling it undertakes.</p> <p>While there is no explicit maximum level of gross leverage that the Underlying Fund may be exposed to, as at the date of this document it is anticipated that the gross leverage of the Underlying Fund will be approximately 1.2 times the Underlying Fund's NAV.</p> <p>When the Underlying Fund enters into a leverage arrangement, fund</p>

assets may be used as collateral, which may be otherwise encumbered or subject to set-off rights by the counterparty in the event of insolvency (or other events of default). For example, where the Underlying Fund engages in short selling and borrows securities the value of the collateral provided to a counterparty as collateral for the borrowed securities may be set-off (i.e. netted off) against the value of the borrowed securities.

Collateral may also be provided where the Underlying Fund enters into OTC derivative transactions.

The assets of the Underlying Fund may also be otherwise encumbered or subject to set-off rights by third parties in the event of insolvency (or other events of default), including for example:

- ▶ where the Underlying Fund enters into an OTC derivative transaction with a counterparty and there is an event of insolvency (or other events of default), amounts owing may be set off between the parties and the non-insolvent/defaulting party may rank as an unsecured creditor in respect of amounts owing by the insolvent/defaulting party; or

- ▶ where the Underlying Fund engages a prime broker to provide prime brokerage services the prime broker the prime broker may be granted a security interest in the assets of the Underlying Fund as security for the Underlying Fund's obligations which the prime broker may determine to exercise in the event of insolvency (or other events of default). In such circumstances, this means that the prime broker may apply the value of the assets to meet any liabilities owed under the prime brokerage arrangement.

The Underlying Fund may obtain leverage from brokers and other counterparties. Leverage may be achieved through, among other methods, purchasing financial instruments on margin and investing in derivative instruments that are inherently leveraged, such as options, futures, forward contracts, repurchase and reverse repurchase agreements and swaps. As at the date of this document, UBS A.G. provides prime brokerage services for the Underlying Fund. BlackRock has established policies and procedures, dealing with the engagement of prime brokers.

Leverage example

Provided below is an example of how leveraging a fund can affect performance.

	10% gain	10% loss
No leverage		
Value of the fund	\$50,000	\$50,000
Gross fund exposure	\$50,000	\$50,000
Gain or (loss)	\$5,000	-\$5,000
Closing value of the fund	\$55,000	\$45,000
Return on the Underlying Fund	10%	-10%
AUM leveraged 1.2 times		
Starting value of the fund	\$50,000	\$50,000
Gross fund exposure	\$60,000	\$60,000

	<table border="1"> <tr> <td>Gain or (loss)</td> <td>\$6,000</td> <td>-\$6,000</td> </tr> <tr> <td>Closing value of the fund</td> <td>\$56,000</td> <td>\$44,000</td> </tr> <tr> <td>Return on the Underlying Fund</td> <td>12%</td> <td>-12%</td> </tr> </table>	Gain or (loss)	\$6,000	-\$6,000	Closing value of the fund	\$56,000	\$44,000	Return on the Underlying Fund	12%	-12%	<p>This example shows that the use of leverage can magnify both gains and losses. In the example the gain/loss without the use of leverage is +/- \$5,000; however, the gain/loss with the use of leverage is +/- \$6,000.</p>
Gain or (loss)	\$6,000	-\$6,000									
Closing value of the fund	\$56,000	\$44,000									
Return on the Underlying Fund	12%	-12%									
7. Derivatives	<p>Use of derivatives</p> <p>Derivatives are financial instruments whose value is derived from another security, commodity, currency, or index. The use of these instruments can dramatically reduce the costs of managing exposure to investment markets and makes possible a much wider universe of investment opportunities.</p> <p>Principally the Underlying Fund may use derivatives to efficiently implement asset allocation views and/or to protect or enhance the value of specific portfolio assets. The derivatives used by the Underlying Fund may be exchange traded or OTC and may include, but are not limited to, options, futures, indexed securities, inverse securities, swaps, swaptions, forward contracts, repurchase agreements, purchase and sale contracts and standby commitment agreements.</p> <p>In addition to the aforementioned uses, the Underlying Fund may also use derivatives for, but not limited to, the following reasons:</p> <ul style="list-style-type: none"> ▶ hedge an asset of the fund against, or minimise liability from, a fluctuation in market values; ▶ reduce volatility; ▶ achieve a targeted exposure to a particular underlying asset and adjusting asset exposures such as swapping one asset exposure with another; ▶ reduce the transaction cost of achieving a targeted exposure; ▶ obtain prices that may not be available in the physical market; ▶ achieve transactional efficiency; for example by assisting in the achievement of the best execution of security transactions; ▶ control the impact on portfolio valuations of market movements caused by significant transactions; and ▶ achieve a desired level of leverage. <p>Counterparty oversight</p> <p>In accordance with standard industry practice when purchasing derivative instruments a fund may be required to secure its obligations to a counterparty. This may involve the placing of margin deposits or equivalent with the counterparty which may or may not be segregated from the counterparty's own assets. A fund may have a right to the return of equivalent assets. These deposits or equivalent may exceed the value of the fund's obligations to the counterparty as the counterparty may require excess margin or collateral.</p> <p>All counterparties of the Underlying Fund are formally approved by the BlackRock Group's Risk and Quantitative Analysis Team ("RQA"), prior to a</p>										

fund engaging in any transaction with a particular counterparty. Counterparty credit limits are also assigned to each counterparty, taking into account the types of securities to be transacted and RQA's assessment of the credit worthiness of the counterparty. No transaction may be entered into with a counterparty that has not previously been approved and assigned a counterparty credit limit.

In determining which counterparty to use for a transaction a number of factors are considered, including:

- ▶ the nature of the proposed transaction – what securities are being traded and what is the expected volume by security;
- ▶ the settlement and delivery procedure – is settlement through an established clearing platform or is there also a physical settlement. Settlement through an established trading and clearing platform is generally considered to carry limited risk. Other settlement methods however may have significantly higher risks associated with them. Generally such clearing methods are limited to only those counterparties who have had investment grade debt ratings (for senior unsecured debt) for an extended period of time;
- ▶ whether the counterparty will settle directly or use a correspondent - only those clearing correspondents that are well-capitalised, well-established and possess a favourable reputation in the marketplace are acceptable;
- ▶ settlement risk tolerance levels - established tolerance levels for exposure to settlement risk (defined as a credit balance on all trades outstanding but not settled) have been set. The level reflects settlement risk tolerance per counterparty and is monitored by BlackRock's Counterparty & Concentration Risk Group, Operations and Compliance personnel on a daily basis; and
- ▶ financial assessment of the counterparty – the level and trend of excess regulatory capital, as shown in the financial information, is the principal barometer of the financial strength of a counterparty. Therefore, investment grade counterparties are monitored as part of RQA's ongoing credit research process. As previously stated, non-investment grade counterparties are generally required to clear through well-established clearing correspondents and are limited to short settlement trades.

Counterparty monitoring

The BlackRock Group prefers to have multiple counterparties for liquidity, risk management and best execution purposes. The counterparties with which BlackRock trades must have broad market coverage. With respect to OTC derivatives, exposure to each counterparty is monitored and agreements are diversified to minimise exposure to individual counterparties. Positions are marked-to-market on a regular basis.

To monitor post-trade counterparty risk, the BlackRock Group has a strong technological infrastructure and proprietary internal review processes in place. The BlackRock Group also has a number of reporting tools that allow it to manage counterparty exposure, balancing net exposures to its different counterparties. Where necessary, credit risk exposure to counterparties can be adjusted, both at the individual

	<p>portfolio level and at the aggregate firm-wide level.</p>
<p>8. Short selling</p>	<p>Long/short investing The Underlying Fund may engage in short selling, either as a hedge against potential declines in value of a portfolio security or to realise appreciation when a security that the Underlying Fund does not own declines in value. The Underlying Fund will not make a short sale if, after giving effect to such sale, the market value of all securities sold short exceeds 20% of the value of its total assets. This restriction does not apply where the short sale is “against the box”. In this situation the Underlying Fund either owns or has the immediate and unconditional right to acquire the identical securities at no additional cost.</p> <p>Unlike “long only” investments, which have just one source of return; that is buying securities that are expected to rise in value, long/short strategies have two sources of potential return. A fund that employs a long/short investment strategy can generate returns by owning securities that the manager expects will rise in value (long). . At the same time the fund can sell (short) securities that are expected to decrease in value. This latter process is known as “short selling”.</p> <p>The Underlying Fund may be exposed to investment strategies that engage in short selling either directly through borrowing and selling physical securities or synthetically through derivatives.</p> <p>To implement short selling using direct securities, a fund will borrow securities from a counterparty that is a securities lender, with the promise to return equivalent securities at a specified time in the future to that counterparty. The borrowed securities will then be sold by the fund on the open market. If the security falls in value, the fund will purchase the security and return those securities to the lender, thus generating a profit. However, if the security increases in value, this will generate a loss for the fund.</p> <p>To implement short selling using derivatives a fund may utilise futures, options or other instruments, which derive their value from another reference rate or asset. For example, a fund may sell S&P Futures. If the futures decline in value this has a positive performance impact on the fund. However if the futures increase in value, this has a negative performance impact on the fund. The Underlying Fund is not limited in using exchange S&P Futures to implement its short selling strategies and may use derivatives which are both exchange-traded and over the counter (“OTC”).</p> <p>The technology, information systems and relationships with institutional market participants such as investment banks required to implement a long/short strategy are considerable and generally not accessible to retail investors.</p> <p>Hypothetical short selling example A fund manager may have been tracking a mining company, Company A</p>

and believes that due to slowing global demand, raw materials prices will soften. The fund manager therefore believes that Company A's share price is also likely to fall.

To act on this belief the fund manager decides that they want to short sell Company A's shares in September that year, when they are valued at \$20.00 per share. However, the fund does not hold any of Company A's shares. The fund therefore borrows 10,000 Company A shares from a stock lender (such as an investment bank or a broker), who lends the fund the Company A shares for a fee (in the same way banks charge borrowers). The fund then sells the Company A shares and deposits the sale proceeds, \$200,000, into an interest earning bank account. The fund buys back the 10,000 shares of Company A in December that year, when they are valued at \$15.00 per share, at a cost of \$150,000. The Company A shares are returned to the stock lender.

The fund profits from the difference between the price at which they sold and bought back the Company A shares, being \$50,000 (\$200,000 minus \$150,000). The fund also benefits from any interest earned on the \$200,000 while it was on deposit in the bank account. The fund will, however, have to pay the stock lender's fee, as well as any dividends paid on Company A's shares during the period in which the fund was short the Company A shares. There may be other costs of maintaining a short position, for example franking benefits payable.

If on the other hand the outlook for Company A improves the share price of Company A may continue to increase, resulting in a loss for the fund. In December that year the share price of Company A rises to \$25.00 and the fund manager believes this will continue. The fund therefore buys back the 10,000 shares at a cost of \$250,000. This results in a loss of \$50,000 (\$200,000 minus \$250,000) for the fund.