

# System Capital Long Short Fund - Class A

ARSN 683 513 948 APIR HOW9939AU

## ASIC Benchmarks and Disclosure Principles Report 24 February 2025

This ASIC Benchmarks and Disclosure Principles Report (**Benchmark Report**) provides specific information in relation to the System Capital Long Short Fund (ARSN 683 513 948) (**Fund**) which is issued by Fidante Partners Limited (ABN 94 002 835 592) (AFSL 234668) (**Fidante, we, us, Responsible Entity, RE**). System Capital Pty Ltd (**System Capital or the investment manager**) is the investment manager of the Fund.

The information in this document forms part of the System Capital Long Short Fund - Class A Product Disclosure Statement dated 24 February 2025.

We recommend that you read this Benchmark Report in conjunction with the Product Disclosure Statement (**PDS**) for the Fund before making an investment decision. A copy of the PDS for the Fund is available from [www.fidante.com](http://www.fidante.com). This Benchmark Report may be updated periodically and non-materially adverse information may be updated at [www.fidante.com](http://www.fidante.com).

A copy of any updated Benchmark Report or PDS will be given to you on request, without charge, by calling the Fidante Investor Services Team on 1300 721 637.

Capitalised terms used in this Benchmark Report which are not expressly defined in this Report have the meanings given to them in the PDS.

### ASIC Benchmarks and Disclosure Principles

The ASIC Benchmarks and Disclosure Principles are aimed at assisting investors to understand the risks of investing in funds that meet certain criteria under 'ASIC Regulatory Guide 240: Hedge funds: Improving disclosure' and whether such investments are suitable for them.

The ASIC Benchmarks and Disclosure Principles covered in this Benchmark Report are as follows:

| ASIC Benchmarks   | For information on each Benchmark refer to the following pages.            |
|---|--|
| ASIC Benchmark 1: Valuation of assets                                   | page 2 of this report  |
| ASIC Benchmark 2: Periodic reporting                                    | page 2 of this report  |
| ASIC Disclosure Principles  | For information on each Disclosure principle refer to the following pages. |
| ASIC Disclosure Principle 1: Investment strategy                        | page 3 of this report  |
| ASIC Disclosure Principle 2: Investment manager                         | page 6 of this report  |
| ASIC Disclosure Principle 3: Fund structure                             | page 7 of this report  |
| ASIC Disclosure Principle 4: Valuation, location, and custody of assets | page 9 of this report  |
| ASIC Disclosure Principle 5: Liquidity                                  | page 9 of this report  |
| ASIC Disclosure Principle 6: Leverage                                   | page 10 of this report   |
| ASIC Disclosure Principle 7: Derivatives                                | page 10 of this report   |
| ASIC Disclosure Principle 8: Short selling                              | page 11 of this report   |
| ASIC Disclosure Principle 9: Withdrawals                                | page 11 of this report   |

## Benchmark 1: Valuation of assets

This benchmark addresses whether valuations of the Fund's non-exchange traded assets are provided by an independent administrator or an independent valuation service provider.

This benchmark is met as the Responsible Entity has in place a policy to ensure valuations of the non-exchange traded assets will be provided by an independent external provider.

For additional information in relation to the valuation of assets, please refer 'How unit prices are calculated' in the Fund's PDS.

## Benchmark 2: Periodic reporting

This benchmark sets out information that investors should likely be aware of, on a periodic basis.

This benchmark is met as the RE has a policy in place to provide detailed monthly and quarterly updates on the Fund's holdings as follows.

The following information will be included in the Fund's periodic report:

- the actual allocation to each asset type;
- the liquidity profile of the portfolio of assets as at the end of the relevant period;
- the maturity profile of any liabilities at the end of the relevant period;
- the leverage ratio (including leverage embedded in the assets of the Fund, other than listed equities and bonds) at the end of the relevant period;
- details on the derivative counterparties engaged;
- the monthly or annual investment returns over at least a five-year period, or since inception if less than five years; and
- any changes to key service providers since any previous report given to investors, including any change in any related party status.

The Fund's latest report will be available on the Fidante website.

On a monthly basis, the following information will be made available on the Fidante website.

- the current total net asset value (**NAV**) of the Fund and the redemption value of a unit as at the date the NAV was calculated. For further information on how the NAV of the Fund is calculated, please refer to 'How unit prices are calculated' in the Fund's PDS;
- any changes in key service providers or their related party status;
- any material change in the Fund's risk profile, strategy and investment team; and
- the net return on the Fund's assets after fees, costs and taxes.

## Disclosure Principle 1: Investment strategy

This disclosure principle is intended to ensure that investors are made aware of the details of the investment strategy for the Fund, including the type of strategy, how it works in practice, and how risks are managed.

**Investment strategy**

The Fund aims to achieve an absolute return of 10% p.a (after fees) over rolling five-year periods.

The System Capital Long Short Fund seeks to achieve attractive absolute returns by identifying pricing inefficiencies between the valuation of a business and its structural position over time. System Capital's investment process aims to identify companies with strong and growing cashflows over the medium term with a strengthening competitive position. System Capital also look for situations where a structural position of a business is weakening and that is not yet reflected in valuation. The Fund targets three key focus areas for long positions: core cashflow franchises, digital infrastructure companies and hidden value businesses. The Fund's shorting approach aims to capitalise on a negative view of a stock, sector or the broader market. System Capital has developed a circle of competence in key industries built up over many years of experience and coverage which serve as the focus areas of investment for the Fund. System Capital's circle of competence includes the media, gaming, infrastructure, utilities, diversified financials, industrials, and technology sectors.

### Investment approach

System Capital's approach can be described in the following four steps:

- **Idea generation**  
Ideas are generated via quantitative screening, industry deep dives & stock specific catalysts. Through System Capital's investment research, they aim to incrementally grow their circle of competence in key industries over time, adding to future idea generation. System Capital's industry research is supported by a program of company visitation and longstanding relationships with industry experts.
- **Research and analysis**  
Ideas that pass the initial screen are subject to a detailed research and analysis process with the broader investment team to identify knowledge gaps, risks, and key return drivers. The team assesses a number of factors including business quality, operating environment and industry structure via a comprehensive checklist. The process is iterative and can often lead to further checklist sessions to follow up on outstanding questions.
- **Scorecard**  
Ideas that make it through the checklist process are ranked based on qualitative factors and valuation upside. Top ranked ideas eligible for portfolio inclusion are subject to a minimum quality score and return threshold. Those ideas which don't meet the valuation upside hurdle are side-lined for ongoing monitoring.
- **Portfolio construction**  
Portfolio construction is driven by the top ranked ideas within each focus area (core franchises, digital infrastructure, hidden value, shorts). The portfolio is adjusted to reduce exposure to risk factors (e.g. industry concentration, inflation, and duration). What results is a mix of short duration, cash generative investments combined with longer duration growth assets with highly visible earnings drivers. Shorts either reduce portfolio risk or aim to generate standalone returns.

| Asset allocation <sup>1</sup> | Asset class                              | Min (% of NAV) | Max (% of NAV) <sup>2</sup> |
|-------------------------------|--|----------------|-----------------------------|
|                               | Long securities (including derivatives)  | 50             | 200                         |
|                               | Short securities (including derivatives) | 0              | 100                         |
|                               | Gross equity exposure <sup>3</sup>       | 50             | 250                         |
|                               | Net equity exposure                      | 0              | 150                         |
|                               | Cash <sup>4</sup>                        | 0              | 50                          |

1 These are asset allocation ranges for the Fund. If market movements, investments into or withdrawals from the Fund, or changes in the nature of an investment, cause the Fund to move outside these ranges, or a limit set out in this Benchmark Report, this will be addressed by us or System Capital as soon as reasonably practicable.

2 Includes use of leverage to increase exposure of the Fund to investment markets.

3 Equity exposure is the combination of long and short equity exposure, including derivatives.

4 These ranges represent the effective cash exposure (after the cash cover for derivatives has been taken into account).

**Investment universe**

The Fund's investments are comprised mainly of equity securities (including ordinary shares, preference shares, partly paid shares, convertible securities, participation notes, equity-linked notes, warrants and rights) as well as equity-linked derivatives.

The Fund is permitted to hold securities that provide exposure primarily to companies in developed markets. This includes, but is not limited to: USA, Canada, EU member states, Hong Kong, Australia, and New Zealand.

## Currency strategy

System Capital intends the portfolio to be predominantly hedged back to AUD, however, there is no set hedge tolerance.

## Portfolio construction and Risk Limits

The Fund will typically hold between 20 to 50 securities listed, or intended to be listed within 12 months, on Australian and international stock exchanges in other developed markets.

As part of the portfolio construction process, the Fund may use derivatives to manage risk, generate standalone returns or for leverage. Derivatives may include but are not limited to, exchange traded share price index futures, currency futures, currency forwards, single stock and equity index options (both exchange traded and over the counter), total return swaps, contracts for difference (CFDs) and interest rate instruments including credit default swaps (CDS) and interest rate derivatives.

Portfolio construction guidelines are applied to ensure the final portfolio is consistent with the Fund's objectives and is managed in a risk-controlled manner. Any single investment exposure is limited to 15% of net asset value (**NAV**) of the Fund (on purchase).

The portfolio weighting of a company will generally be determined by consideration of a number of factors, including the manager's conviction, the level of undervaluation of the company, the quality of the company and the liquidity of the stock.

Portfolio weightings will not be determined by reference to stock weightings in any index and is not constrained to be managed to the Fund's Benchmark.

Portfolio construction guidelines are applied to ensure the final portfolio is consistent with the Fund's objectives and is managed in a risk-controlled manner. The Fund references the following diversification guidelines:

- Maximum 15% of NAV weighting to any one stock on purchase; and
- Maximum 10% of NAV weighting for unlisted securities with a firm commitment to list on a Recognised Stock Exchange within 12 months of the prospectus issue date.

For further information on the assets of the Fund refer to 'How we invest your money' in the Fund's PDS.

## Leverage

System Capital may use leverage to increase the exposure of the Fund to investment markets. Leverage will generally be obtained through the use of derivative instruments. Leverage is also created as the proceeds from short-selling borrowed securities are reinvested in the long portfolio. In simple terms, because the Fund's gross exposure (equalling the sum of long and short positions) is greater than the amount of investors' capital, leverage is created. There will be a maximum net exposure: 150% of NAV, and a maximum gross exposure: 250% of NAV. The level of gross exposure is a product of the number of positions held and the size of those positions. The gross exposure of the Fund will typically be between 50-250%. The Fund must provide collateral to secure its obligations under the relevant agreements. Please refer to 'Disclosure Principle 6: Leverage' in this report and the Fund's PDS for further information on gearing and leverage.

## Derivatives

The primary use of derivatives is to manage risk, generate standalone returns or for leverage.

The Fund can invest in derivatives such as, but not limited to, exchange traded share price index futures, currency futures, currency forwards, single stock and equity index options (both exchange traded and over the counter), total return swaps, contracts for difference (CFDs) and interest rate instruments including credit default swaps (CDS) and interest rate derivatives. The main risks to the Fund as a consequence of dealing in derivatives are counterparty risk and derivative risk.

Where the Fund uses derivatives, System Capital aims to manage the Fund to keep sufficient liquid assets in the Fund to meet all obligations associated with the derivatives. Please refer to 'Disclosure Principle 7: Derivatives' in this report and the Fund's PDS for further details on how derivatives are used in the Fund.

## Short selling

The Fund uses short selling as an investment technique where System Capital aims to capitalise on a negative view of a stock, sector of the broader market.

Short selling may expose the Fund to risks such as short position risk, liquidity risk and counterparty risk. Short positions are limited to 100% of the Fund's NAV. Please refer to 'Disclosure Principle 8: Short Selling' in this report and the Fund's PDS for further information on short selling.

**Risk management**

Significant risks of the Fund are outlined under 'Risks of managed investment schemes' in the PDS.

The primary risks of the Fund include:

- Derivative risk: The value of a derivative is linked to the value of an underlying asset and can be volatile. While the use of derivatives offers the opportunity for higher gains, it can also magnify losses to the Fund. Risks associated with using derivatives might include the value of the derivative failing to move in line with that of the underlying asset, potential illiquidity of the derivative, the Fund not being able to meet payment obligations as they arise or the risk that the other party with whom the derivative contract is held will fail to perform its contractual obligations.
- Leverage risk: The use of borrowed money within the Fund to increase investment exposure (known as gearing) can magnify the potential gains and losses from investments and increase the volatility of the Fund's total return.
- Short position risk: Establishing a short position involves 'borrowing' a security directly or indirectly via a derivative. There is no limit to how much an investor can lose if the price of the security continues to rise.
- Currency risk: Securities held by the Fund may be denominated in a currency different to Australian Dollars. A change in the value of these currencies relative to the Australian dollar can affect the value of the investments.

Risk management is embedded in the investment process and is considered at the portfolio level as well as at the individual stock level. Risk is managed by:

- diversification across the number of holdings, single position sizes, sector and country exposure limits;
- continuous portfolio monitoring to minimise unintended risks; and
- portfolio level risk controls

**Changes to investment policy**

The Constitution permits a wide range of investments and gives us, as Responsible Entity, broad investment powers. We may change the investment manager and/or vary the investment objectives, strategies, benchmarks, asset allocation ranges and processes of the Fund. We will give unitholders written notice of any material variation which we believe they would not have reasonably expected.

## Disclosure Principle 2: Investment manager

This disclosure principle is intended to ensure that investors have the necessary information about the people responsible for managing the Fund's investments, as well as the arrangement between the Responsible Entity and any investment manager.

As Responsible Entity of the Fund, Fidante has appointed System Capital as the investment manager of the Fund to invest and manage the Fund's portfolio.

Key information on the investment team of the Fund, including details on their qualifications, commercial experience and time spent executing the Fund's investment strategy is provided in the tables below.

| <b>Name</b>   |   |
|---|---|
| <b>Name</b>   | <b>Lev Margolin</b>   |
| <b>Title</b>  | Chief Investment Officer  |
| <b>Year joined</b>  | 2022  |
| <b>Responsibilities</b>   | Lev is responsible for overseeing the investment process, risk management and management of the portfolios.   |
| <b>Investment Experience</b>                                    | Since 2008  |
| <b>Educational and professional qualifications</b>              | Lev holds a Bachelor of Commerce (Honours - Finance and Actuarial Studies) from the University of Melbourne and is a CFA Charterholder.<br><br>Lev spent 13 years at L1 Capital, including the last 7 years as Portfolio Manager of the L1 Long Short Fund. He was Primary Analyst for telecommunications, real estate, utilities, infrastructure, media, gaming and diversified financial sectors. Lev also has previous experience in M&A and Corporate Strategy across Babcock & Brown, Allco and NAB. |
| <b>Portion of time devoted to executing investment strategy</b> | 95%   |

### Termination of the investment manager's appointment

As RE of the Fund, Fidante is entitled to terminate the investment manager's appointment in writing, with a minimum of twenty business days' notice. The circumstances in which an investment manager may be terminated include where the investment manager is in liquidation, ceases to carry on or sells its investment management business, breaches the investment management agreement, or if the investment manager ceases to be licensed under the relevant law. Termination of an investment manager may not impact the accrual of management fees and expenses during the period of termination

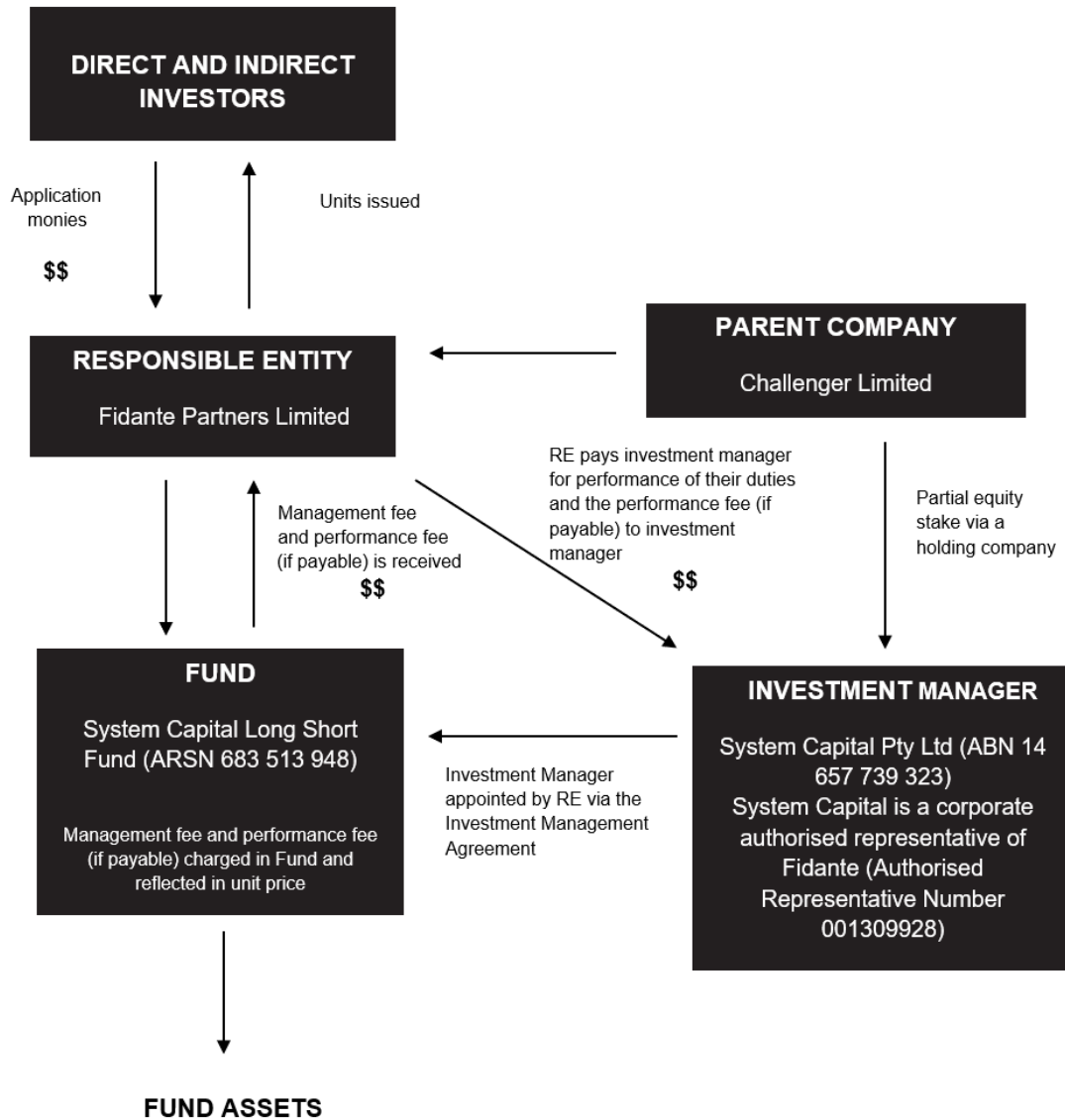
## Disclosure Principle 3: Fund structure

This disclosure principle is intended to ensure that the investment structures, the relationships between entities in the structure, fees and other costs payable to the Responsible Entity and investment manager, jurisdictions involved, the due diligence performed on underlying funds, and the related party relationships within the structure are explained.

## The Fund's investment structure

The Fund is a registered managed investment scheme.

The diagram below shows the key entities involved in the Fund, their relationship to each other, their roles and the flow of investment money through the Fund as at the date of this report.



The key service providers of the Fund are outlined below.

| Key service providers   | Role                                     | Scope of services   | Jurisdiction   |
|---|--|---|----------------|
| <b>System Capital Pty Ltd<br/>(ABN 14 657 739 323)</b>                | Investment manager of the Fund           | System Capital is the investment manager of the Fund and responsible for all aspects of the investment management of the Fund. System Capital is entitled to receive a management fee and performance fee (if applicable) for its management of the portfolio. For further information on System Capital, please refer to 'About System Capital' in the Fund's PDS.   | Australia      |
| <b>Fidante Partners Limited<br/>(ABN 94 002 835 592, AFSL 234668)</b> | Responsible Entity                       | A wholly owned subsidiary of Challenger Limited and responsible entity of the Fund, Fidante will issue units in the Fund and is legally responsible to the unitholders of the Fund for its operation.<br><br>For further information on Fidante, please refer to 'About the Responsible Entity' in the Fund's PDS.  |                |
| <b>Challenger Limited (ABN 85 106 842 371)</b>                        | Parent Company of the Responsible Entity | Subsidiaries of Challenger Limited have a partial equity stake in System Capital and provide back office, marketing, distribution, administration and compliance support services.  | Australia      |
| <b>State Street Australia Limited (ABN 21 002 965 200)</b>            | Fund Administrator                       | As Fund administrator, State Street Australia Limited ( <b>State Street</b> ) provides the following services: fund valuation and reconciliations; performance and attribution; fund accounting; distribution calculations and financial accounts.  | Australia      |
| <b>Boardroom Pty Limited (ABN 14 003 209 836)</b>                     | Fund Registry                            | Boardroom Pty Limited ( <b>Boardroom</b> ) is responsible for maintaining the register of unitholders which includes all details of an investor's account and investments. The registry provider is responsible for sending all correspondence related to unitholders investments as well as providing customer service support.  | Australia      |
| <b>Morgan Stanley &amp; Co. International plc</b>                     | Custodian                                | Morgan Stanley & Co. International plc ( <b>Morgan Stanley</b> ) has been appointed by the Responsible Entity as the custodian for the Fund. The custodian provides custodial services to the Fund and is responsible for the safekeeping of the assets of the Fund. As custodian of the assets of the Fund, Morgan Stanley has no independent discretion with respect to the holding of assets and is subject to performance standards.  | United Kingdom |
| <b>Morgan Stanley &amp; Co. International plc</b>                     | Prime Broker                             | Morgan Stanley acts as the prime broker for the Fund to facilitate the Fund's investment activities. The services may include the provision to the Fund of margin financing, clearing, settlement, stock borrowing and foreign exchange facilities.<br><br>The Fund may also use the prime broker for the purposes of executing transactions to the Fund. The prime broker has no decision making discretion relating to the investment of the assets of the Fund.<br><br>The obligations of the Fund to the prime broker will be secured by transferring to the prime broker by way of security title to certain investments, cash or other assets of the Fund. Refer to 'About the Prime Broker and Custodian' in the Fund's PDS for further information. | United Kingdom |



| Key service providers              | Role    | Scope of services   | Jurisdiction |
|------------------------------------|---------|---|--------------|
| Ernst & Young (ABN 75 288 172 749) | Auditor | Ernst & Young is the registered company and compliance plan auditor for the Fund. The auditor's role is to provide an audit of the financial statements and compliance plan of the Fund each year, as well as performing a half-yearly review (if required), and to provide an opinion on the financial statements. | Australia    |

The Responsible Entity has entered into separate agreements with each service provider which sets out the terms and conditions of the relationship, as well as the consequences of any breaches to the terms of that relationship. The Responsible Entity has agreements in place with each service provider for the provision of certain reporting obligations and adopts the following procedures to ensure compliance with these arrangements:

- The Responsible Entity monitors the services provided by Morgan Stanley as custodian, State Street as administrator and Boardroom as registry provider through its day-to-day dealings with the service providers.
- Ernst & Young provides audit services for the Fund's full-year statutory accounts and compliance plan as well as half-year opinions for half-year accounts (if applicable). Ernst & Young's services are conducted in accordance with the Corporations Act 2001 (Cth), including auditing standards as revised by the Auditing and Assurances Standards Board.

### Related party relationships

As mentioned previously, a subsidiary of Challenger Limited has a partial equity stake in System Capital. Fidante has appointed System Capital as the investment manager of the Fund. We may enter into transactions with, and use the service of, any of our related entities. Such arrangements will be based on arm's length commercial terms. We, or any of our related entities, or any director, officer or employee of any of them may invest in the Fund. There are currently no material arrangements in place with the Fund that have not been made on arm's length terms.

### Key risks of the Fund structure

The key risks to the Fund's structure are counterparty risk, fund risk and service provider risk. For further information on these risks please refer to 'Disclosure principle 1: Investment strategy' in this report and 'Risks of managed investment schemes' in the Fund's PDS.

## Disclosure Principle 4: Valuation, location, and custody of assets

This disclosure principle is intended to ensure that the RE of the Fund discloses the types of assets held, where they are located, how they are valued and the details of any custodial arrangements.

### Valuation policy of the Fund

The Fund's assets and liabilities are usually valued each NSW business day. Generally, for unit pricing purposes, listed securities are valued using the last available market

close price quoted on the relevant exchange and liabilities are valued at cost. Liabilities also include an accrual for management costs and for costs (if any) that an investor would ordinarily incur when investing in the Fund's underlying assets. Any other assets such as cash and cash receivables are valued at recoverable value.

Any income entitlements, cash at bank, and any amounts of Goods and Services Tax (GST) recoverable from the Fund from the Australian Taxation Office (ATO) are also included in asset values used to calculate the investment and withdrawal unit price.

For more information, refer to 'How unit prices are calculated' in the Fund's PDS.

### Asset allocation of the Fund

The strategic asset allocation ranges of the Fund are provided below:

| Asset Class  | Min (% of NAV) | Max (% of NAV) |
|--|----------------|----------------|
| Australia and international developed market securities including derivatives (long positions)         | 50             | 200            |
| Australia and international developed market listed securities including derivatives (short positions) | 0              | 100            |
| Gross equity exposure (long plus short equity exposure)  | 50             | 250            |
| Net equity exposure (long minus short equity exposure)   | 0              | 150            |
| Cash   | 0              | 50             |

### Custodial arrangements of the Fund

Morgan Stanley has been appointed by the Responsible Entity as the custodian for the Fund. The custodian provides custodial services to the Fund and is responsible for the safekeeping of the assets of the Fund. As custodian of the assets of the Fund, Morgan Stanley has no independent discretion with respect to the holding of assets and is subject to performance standards. The assets of the Fund are held in custody by the custodian, located globally.

## Disclosure Principle 5: Liquidity

This disclosure principle is intended to ensure that investors are made aware of the Fund's ability to realise its assets in a timely manner and the risks of illiquid classes of assets.

This disclosure principle does not apply to the Fund as the Fund reasonably expects to realise at least 80% of its assets at the value ascribed to those assets in calculating the Fund's net asset value within 10 days, as at the date of this Report.

## Disclosure Principle 6: Leverage

This disclosure principle is intended to ensure that investors are made aware of the maximum anticipated and allowed level of leverage of the Fund (including leverage embedded in the assets of the Fund).

The Constitution allows for borrowing; however, it is expected that any leverage will be used opportunistically and not consistently. Borrowing may be used from time to time to cover short-term cash flow needs or if emergency or extraordinary situations arise.

System Capital may use leverage to increase the exposure of the Fund to investment markets. Leveraged market exposure can generally be obtained through the use of derivative instruments, including swaps, futures and options. Leverage is also created as the proceeds from short-selling borrowed securities are reinvested in the long portfolio.

Leverage utilised by the Fund may be undertaken through the prime broking relationship with Morgan Stanley who provides a prime broking arrangement that facilitates the Fund's investments. The use of assets as collateral for the Fund is dictated by this prime broking relationship with Morgan Stanley. Where the Fund enters into a leverage arrangement, the Fund's assets such as cash and certain investments may be used as collateral, and may be otherwise encumbered or subject to a set-off rights by the counterparty in the event.

The Fund must provide collateral to secure its obligations under the relevant prime brokerage customer documents. The amount of collateral is the value of the securities borrowed plus a margin. In the event that the value of the securities borrowed plus a margin exceeds the collateral provided, further collateral will need to be delivered so that the collateral equals the value of securities borrowed plus the margin.

Refer to 'About the Prime Broker and Custodian' in the Fund's PDS for further information of the activities of the prime broker.

In simple terms, because the Fund's gross exposure (equalling the sum of long and short positions) is greater than the amount of investors' capital, leverage is created. There will be a maximum net exposure: 150% of NAV, and a maximum gross exposure: 250% of NAV. The level of gross exposure is a product of the number of positions held and the size of those positions. The gross exposure of the Fund will typically be between 50-250%. Typically the Fund's positions in long securities and derivatives and overall net equity exposure will not exceed 150% of the Fund's NAV. In this calculation, the market value of physical securities, and notional value of derivatives is used.

Derivatives positions are collateralised with cash. The Fund does not use its securities as collateral.

The table below outlines the maximum allowable exposures and leverage in the Fund.

| Exposures               | Min (%) | Max (%) |
|-------------------------|---------|---------|
| Long positions          | 50      | 200     |
| Short positions         | 0       | 100     |
| Gross (Long plus Short) | 50      | 250     |
| Net (Long minus Short)  | 0       | 150     |

Derivative gearing may increase the volatility of the Fund's unit price by potentially magnifying gains and losses from the Fund's investments. The value and liabilities associated with leveraged investment strategies can be more variable than traditional investments and there may be greater exposure to possible losses. Accordingly, a geared fund may be regarded as having a higher risk profile than a comparable fund which has no derivative gearing.

The below example shows the impact of leverage on investment return and losses, assuming maximum anticipated level of leverage (including leverage embedded in assets of the Fund, other than leverage embedded in holdings of listed equities and bonds):

If the leverage of the Fund was 50% of the Fund's NAV, and the value of the Fund's assets increased by 10%, the increase in the Fund's value would be 15%. That is, for every \$1 invested in the Fund, the Fund would earn \$0.15. Conversely, a fall of 10% in the value of the Fund's assets would result in a fall in the Fund's value of 15%. That is, for every \$1 invested in the Fund, the Fund would lose \$0.15. Please note the above assumptions are for illustrative purposes only and are based on each leveraged position in the portfolio being positively correlated with one another. However, in constructing a diversified portfolio, it is likely that some of the leveraged positions will move in an opposite direction to others and the size of the movement will likely be of a different magnitude.

For more information on how the Fund's uses leverage, refer to 'Disclosure principle 1: Investment strategy' in this report and 'Borrowings of the Fund' and 'Gearing and leverage' in the Fund's PDS.

## Disclosure Principle 7: Derivatives

This disclosure principle is intended to ensure that investors are made aware of the purpose and types of derivatives used by the Responsible Entity or investment manager, and the associated risks. The term derivative is used to describe any financial product that has a value that is derived from another security, liability or index.

The Fund will use both exchange traded and OTC derivatives to implement its investment strategy and achieve its investment objective.

The primary use of derivatives is to manage risk, generate standalone returns or for leverage.

The Fund can invest in derivatives such as, but not limited to, exchange traded share price index futures, currency futures, currency forwards, single stock and equity index options (both exchange traded and over the counter), total return swaps, contracts for difference (CFDs) and interest rate instruments including credit default swaps (CDS) and interest rate derivatives.

Derivatives may be used to gain exposure when they offer a more cost-effective way of purchasing the underlying security. Derivatives can be used to implement investment decisions, and as a risk management tool (such as managing the effect of foreign currency movements). They may be used to adjust or implement investment decisions including to gain, or avoid, exposure to a particular market rather than purchasing physical assets.

The use of derivatives may result in the investment exposure of the Fund to exceed 100% of the Fund's NAV. Refer to 'Disclosure Principle 6: Leverage' in this report for more information.

Where the Fund uses OTC derivatives, System Capital will only interact with large, institutional derivative counterparties whose capacity to meet financial commitments on obligations is considered satisfactory.

The main risks to the Fund as a consequence of dealing in derivatives are counterparty risk and derivative risk (including the risks relating to the collateral requirements of derivative instruments). For more information, refer to 'Disclosure Principle 1: Investment strategy' and 'Disclosure Principle 7: Derivatives' in this report and 'Risks of managed investment schemes' in the Fund's PDS.

## Disclosure Principle 8: Short selling

This disclosure principle is intended to ensure that investors are made aware of how short selling may be used as part of the investment strategy, and of the associated risks and costs of short selling.

The Fund can use short selling as an investment technique where System Capital aims to capitalise on a negative view of a stock or sector of the broader market. Short selling may be taken physically on particular stocks, and can also be undertaken through the use of derivatives, including single stock and index swaps. Short positions may be taken on particular stocks or markets where System Capital believes a security or market is overvalued and it is expected that these stocks or markets will fall in price, or for hedging purposes.

As the Fund engages in short selling, the Fund may be exposed to short position risk where there is no limit on the maximum loss that can be incurred when short selling.

Short selling will also increase the Fund's gross equity exposure to the share market above 100% of its net assets. This in turn may magnify the exposure to other investment risks as detailed in 'Disclosure Principle 1: Investment strategy' of this report and 'Risks of managed investment schemes' in the Fund's PDS. The Fund is restricted to short securities of a maximum of 100% of its NAV.

As part of the Fund's short selling strategy, the Fund may also borrow securities (from a lender of securities). In such case, the Fund pays the lender a fee for the borrowing and, depending on the agreement with the lender, the lender will earn interest on collateral lodged by the Fund (as borrower of securities) with the lender.

Short positions are also affected by risks associated with the lender of the security or counterparty. There is the risk that the securities lender or counterparty may recall a security that has been borrowed, or close a short position at any time. This means the borrower (i.e. the Fund) will have to find another securities lender or counterparty willing to enter the short position within a short period of time. This may force the borrower to close the short position at an unfavourable price.

Short selling also exposes the Fund to other risks such as additional liquidity risk, counterparty risk and risks associated with securities lending risk. Refer to 'Disclosure Principle 1: Investment strategy' in this report and 'Risks of managed investment schemes' in the Fund's PDS for further information. To help manage any securities lending risk, there are requirements in place for borrowers to provide sufficient collateral as security for any lent securities, enforceable legal contracts between parties and undertaking securities lending through approved parties.

The below example outlines the potential gains and losses from short selling:

| Potential gains from short selling  |            |
|---|------------|
| In July, System Capital short sells 300 XYZ shares at \$150 per share                                   | \$45,000   |
| In December, System Capital closes the short position by buying back 300 XYZ shares for \$120 per share | (\$36,000) |
| Net profit  | \$9,000    |
| Potential losses from short selling   |            |
| In July, System Capital short sells 300 XYZ shares at \$150 per share                                   | \$45,000   |
| In December, System Capital closes the short position by buying back 300 XYZ shares for \$180 per share | (\$54,000) |
| Net loss  | (\$9,000)  |

## Disclosure Principle 9: Withdrawals

This disclosure principle ensures that investors are made aware of the circumstances in which the Fund allows withdrawals and how these might change.

If a situation occurs where the assets that the Fund invests in are no longer able to be readily bought and sold, or market events reduce the liquidity of a security or an asset class, there is a risk that the generally applicable timeframe of five business days for meeting withdrawal requests may not be able to be met. This is because it may take longer to sell these types of investments at an acceptable price. In this case withdrawals from the Fund may take significantly longer than the generally applicable timeframe.

The maximum timeframe in which we, as Responsible Entity, have to meet a withdrawal request is set out in the constitution of the Fund. Where the Fund is not liquid (as defined in the Corporations Act 2001 (Cth)), you may only withdraw when we make an offer to withdraw to all investors under a statutory withdrawal offer, as required by the Corporations Act 2001 (Cth).

Refer to 'Additional information about withdrawing' and 'Withdrawal risk' in the Fund's PDS for more information.

#### **Direct Investors**

Direct Investors can request a withdrawal by lodging a Fidante Withdrawal Request Form or in writing. A withdrawal request, either in whole or in part, once received by us may not be withdrawn without our agreement. Withdrawals can only be made to an Australian bank account held in your name.

#### **Indirect Investors**

Indirect Investors must complete the withdrawal documentation required by the platform operator.

#### **All Investors**

Withdrawals from the Fund are not currently funded by an external liquidity facility.

In the event there are any material changes to withdrawal rights, investors will be notified of these changes in writing as soon as practicable.

## Contact details

|                |  |
|----------------|--|
| <b>Phone</b>   | Fidante Investor Services Team on 1300 721 637 or +612 8023 5428 from outside Australia between 8.15am to 5.30pm (Sydney time)   |
| <b>Email</b>   | info@fidante.com.au  |
| <b>Mail</b>    | Fidante<br>GPO Box 3993 Sydney NSW 2001.<br>For any complaints please address to the 'Complaints & Disputes Resolution Officer.' |
| <b>Website</b> | www.fidante.com.   |

This document is issued by Fidante Partners Limited (ABN 94 002 835 592) (AFSL 234668). The ultimate parent of Fidante is Challenger Limited (ABN 85 106 842 371).

This document contains general information. In preparing the information contained in this ASIC Benchmarks and Disclosure Principles Report, we did not take into account your particular investment objectives, financial situation, or needs. As investors' needs and aspirations differ you should consider whether investing in the Fund is appropriate for you in light of your particular needs, objectives and financial circumstances. You may also wish to obtain independent advice, particularly about individual matters such as taxation, retirement planning and investment risk tolerance.

### Consents

System Capital Pty Ltd has provided its consent to the statements about it in the form and context in which it was included. It is not responsible for the issue of this Report, nor is it responsible for any particular part of this Report, other than the parts that refer to it. It has not withdrawn its consent before the date of this Report.

Boardroom Pty Limited has provided its consent to the statements about it in the form and context in which it was included. It is not responsible for the issue of this Report, nor is it responsible for any particular part of this Report, other than the parts that refer to it. It has not withdrawn its consent before the date of this Report.

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