



WATERSHED

FUNDS MANAGEMENT



Watershed International Equities Managed Portfolio Investment Mandate

Issue date: January 2020

Important Information

This Investment Mandate has been issued by Mason Stevens Limited ABN 91 141 447 207, AFSL 351578 (Mason Stevens). Mason Stevens is the Managed Discretionary Account (MDA) Provider of the MDA Service. Mason Stevens has appointed Watershed Dealer Services Pty Ltd, ABN 29 162 693 272, AFSL 436357, as Investment Sub-Adviser on the Managed Portfolios outlined in this document. Watershed Dealer Services has appointed Watershed Funds Management Pty Ltd ABN 11 166 324 858, a Corporate Authorised Representative (CAR 000461926) of Watershed Dealer Services, as Portfolio Manager of the Managed Portfolio.

Mason Stevens has appointed a licensed sub-custodian to hold all client monies and financial products in accordance with regulatory requirements. A copy of the agreement under which the appointment of the sub-custodian was made is available for inspection at the registered office of Mason Stevens.

In this document, **MDA** refers to a Managed Account provided by Mason Stevens which is managed to follow a Managed Portfolio.

If you are considering using a managed account you must read the Mason Stevens account application and the Managed Portfolio information outlined in this document and the Mason Stevens financial services guide.

If you are a retail investor, you must obtain personal advice from a licensed financial adviser on whether a managed account and a particular Managed Portfolio is appropriate for you given your personal goals, needs and financial circumstances. This document is produced without consideration of the investment goals, needs or financial circumstances of any person who may read it.

Investment involves risk, potentially resulting in (but not limited to) delays in payment of withdrawal proceeds and the loss of income and capital invested. Past performance is not necessarily indicative of future performance. Mason Stevens, Watershed Dealer Services and Watershed Funds Management and their respective directors, officers, employees, sub-contractors and associates do not assure or guarantee the capital value of your investments will be maintained or the investment performance of any investments acquired through the managed account under any Managed Portfolio.

Where there are references in this document to data provided by third parties, none of Mason Stevens, Watershed Dealer Services and Watershed Funds Management has control over that data and nor do they accept any responsibility for verifying or updating that data.

Mason Stevens, Watershed Dealer Services and Watershed Funds Management, and their respective directors, officers, employees and associates may from time to time hold interests in investments of, or earn fees and other benefits from, corporations or investment vehicles which may be held in your managed account under any Managed Portfolio.

Watershed Dealer Services and Watershed Funds Management consent to the statements in this document attributable to them or referring to them, and have not withdrawn their consent. Watershed Dealer Services and Watershed Funds Management have conformed the statements attributable to them or referring to them are not misleading or deceptive at the time of issue.

All amounts in this document are quoted in Australian dollars and all fees are inclusive of GST net the effect of any input tax credits and/or reduced input tax credits.

This document should read in conjunction with the Mason Stevens Financial Services Guide (**FSG**), the Mason Stevens Global Investment Service Guide (**Guide**) including the Mason Stevens MDA Service Terms (which together form the Investment Mandate).

The FSG contains information on Mason Stevens and the MDA Service and is available at **masonstevens.com.au/fsg**

The Guide including the Mason Stevens MDA Service Terms is incorporated by reference into this document and contains important information on the fees and costs you pay when you establish an account with Mason Stevens and invest following the MDA. It also contains information on how to operate your account and how to contribute into your account once it is opened. It is available at **masonstevens.com.au/investorguide**

If you are unable to access the online information, your adviser or Mason Stevens can provide the information free of charge.

1. The Mason Stevens Managed Account Service

1.1 INTRODUCTION

ABOUT MASON STEVENS

Mason Stevens Limited is part of the Mason Stevens group of companies (Mason Stevens Group). The Mason Stevens Group is a privately-owned financial services firm based in Sydney, founded in 2010. The Mason Stevens Group specialises in offering separately managed accounts supported by a comprehensive investment and administration platform, as well as bespoke investment solutions to both retail and wholesale investors.

Managed Discretionary Account (MDA)

A Managed Discretionary Account allows you to invest following professionally managed portfolios (**Managed Portfolios**) that follow defined investment strategies. You as the investor will delegate the day to day investment decisions for the Managed Portfolios to Mason Stevens, who may be advised by or appoint an Investment Sub-Adviser. You retain beneficial ownership of all assets within the MDA.

A Managed Portfolio may invest in the following types of assets:

- Australian and international equities
- Fixed Income securities
- Exchange Traded Funds (ETFs)
- Managed Funds
- Separately Managed Accounts (SMAs)
- Listed property funds
- Listed Investment Companies
- Cash

Unlike investing in managed funds, investors in MDAs retain the beneficial ownership of the underlying assets of the Managed Portfolios. This ultimately means that you will be entitled to any income generated from assets held in the MDA but will also be liable for any tax consequences.

In addition, there are differences between investing in a managed account and an investor holding the asset directly. The table below outlines the primary differences between the two.

Benefits of the Service

The Managed Account Service (Service) allows you to consolidate other investments which you may hold and benefit from consolidated management, execution and reporting. Investors are able to view their holdings in their accounts, any transactions and investment performance on a daily basis.

If you are a retail client you can only access the Service through a licensed financial adviser and you must be provided with personal advice. Personal advice will determine whether the Managed Portfolio offered and the Service is suitable for you. Your financial adviser will issue you with a Statement of Advice (SOA).

Suitability of this Service

Please note that the Watershed International Managed Portfolio may not be suitable for your relevant circumstances if you have provided limited or inaccurate personal information to your financial adviser. Furthermore, the Service may cease to be suitable should your relevant circumstances change. You should speak as soon as possible with your financial adviser should your circumstances change at any stage.

	MDA SERVICE	DIRECT INVESTMENT
Beneficial owner	You retain beneficial ownership of all investments. You are entitled to all dividends, franking credits and distributions. The underlying investments are registered in the name of the Custodian appointed by the MDA Provider.	You retain beneficial ownership of all investments. You are entitled to all dividends, franking credits and distributions. The investments are usually registered in your name via CHESS or other market settlement system.
Corporate actions	Since the investments are registered in the Custodian's name any notices for corporate actions are sent to the Custodian. Upon set up of your MDA Service you will be required to provide standing instructions for future corporate actions which the Custodian will implement going forward.	You receive all shareholder notifications on corporate actions directly. You are responsible for communicating with the share registry directly to provide instructions on each actionable corporate action.
Administration	The Custodian structure removes the hassle of paperwork. All contract notes, holding statements, dividend statements can be handled by the Custodian and reported directly to your online account. At the end of financial year the investor is provided with an annual report which provides information to assist them with their tax return.	All investor communication is sent directly to you. You will need to administrate all your individual investments.

1.2 PARTIES TO THE MANDATE

The Investment Mandate is between Mason Stevens and the investor (you) for your investment in your selected Managed Portfolios.

Investment Sub-Adviser

Mason Stevens have appointed Watershed Dealer Services as the Investment Sub-Adviser of the Managed Portfolios.

Watershed Dealer Services has delegated the following responsibilities to the appointed Portfolio Manager that include:

- to advise the MDA Provider on and manage the Managed Portfolios in accordance with the defined investment parameters outlined in this document
- to advise the MDA Provider on the composition of the investment universe for the Managed Portfolio and advise of any changes in accordance with defined investment partners.
- to advise the MDA Provider on corporate actions arising from any direct investments held across any of the Managed Portfolios.

Portfolio Manager

The Investment Sub-Adviser has appointed Watershed Funds Management as the Portfolio Manager of the Managed Portfolios. Watershed Funds Management is responsible for the management and investment decisions of the Managed Portfolio. Further information is detailed in the Investment Guide section of this document. Watershed Funds Management is not acting in the capacity of the Investment Sub-Adviser to the Managed Portfolio.

MDA Provider

Mason Stevens is the MDA Provider and Administrator of the Service. Mason Stevens' responsibilities include:

- establishing your Managed Account
- maintaining records of investments in your Managed Portfolios and providing you with up-to-date online reporting
- implementing transactions in accordance with your instructions or delegated authority
- changes to the Managed Portfolios as instructed by the Investment Sub-Adviser
- implementing corporate actions in response to Investment Sub-Adviser advice
- arranging the settlement of investments in your Managed Portfolios
- recording and crediting income on investments held in your Managed Portfolios, and
- supervising compliance of the Investment Sub-Adviser with the Managed Portfolios.

Custodian

Mason Stevens is licensed by the Australian Securities and Investments Commission (ASIC) to provide custodial and depository services to clients. Mason Stevens appointed a licensed sub-custodian to hold client monies and all financial products. Our primary sub-custodian is:

National Australia Bank
Level 12
500 Bourke Street
Melbourne VIC 3000

National Australia Bank has engaged Citibank N.A as its global sub-custodian. From time to time Mason Stevens may change the appointed sub-custodian.

2. About the relevant parties

2.1 ABOUT WATERSHED FUNDS MANAGEMENT

Watershed Funds Management was established as an independent boutique Australian investment manager and is a Corporate Authorised Representative (CAR 465285) of Watershed Dealer Services Pty Ltd, ABN 29 162 693 272, AFSL 436357. Watershed Funds Management delivers clients-focused investment solutions to institutions intermediaries, financial planners and high net worth investors.

2.2 INVESTMENT PROCESS

The investment process is highly disciplined and structured and is based on long standing and proven investment principles. The Portfolio Manager only invests in companies it thoroughly understands in respect of risk, quality and value. It gains understanding through its own independent and comprehensive research and analysis, which takes in to account a range of quantitative and qualitative factors. It firmly believes that investing in something one does not understand is simply speculating.

The initial idea and relevant stock(s) is processed through a primary quality filter, to ensure they offer:

- Strong and capable management with a solid track record and high integrity
- An underlying product/service that offers undeniable value to the customer
- An industry position offering a sustainable competitive advantage
- Clearly identifiable growth prospects and favourable economic returns
- A strong balance sheet and overall financial position

Quantitative considerations we take into account are:

- Return of Equity consistently higher than 12.5% p.a. over last 7 years
- Consistent growth in sales, earnings and dividends over last 7 years
- Profitable for last 7 years
- Debt to Equity of no more than 100% but no more than 50% strongly preferred
- No debt refinancing risk with debt rating of investment grade

Qualitative considerations that are very important to us:

- The business should have high barriers to entry
- The business should have a sustainable competitive edge such as its strong brand, cost of production, technology and location
- Management should be competent and honest
- The price should be attractive

2.3 INVESTMENT TEAM

Watershed Funds Management is responsible for advising the MDA Provider on the management and performance of the Managed Portfolios available for investment through the Investment Mandate. The establishment and management of the Managed Portfolios are supervised by an Investment Team comprising the following members:

ADRIAN ROWLEY **Head of Equity Strategies**

Adrian is a Portfolio Manager and Equity Strategist within the Watershed Funds Management Investment Team. Adrian is a specialist in the delivery of Managed Account solutions with other 20 years' experience managing funds across multiple platforms, structures and asset classes. Adrian is the Portfolio Manager for the Watershed Australian Share SMA and Income SMA and a member of the Asset Allocation, International Share and Emerging Leaders Investment teams.

BEN BOWEN **Portfolio Manager**

Ben is a Portfolio Manager within Watershed Funds Management's Investment Team with a particular focus on the ASX Mid-Cap Sector. Ben graduated from Harvard University in 1996 with a major in Economics. He was then one of four graduate students chosen nationwide to participate in the JB Were Graduate Program which involved a three month rotation through all departments of the investment house. After eighteen months he became an Investment Adviser on the Wholesale Dealing Desk, a role he performed for the next three years, before spending two years in London working as a Derivatives Analyst for Northern Trust. Upon his return to Melbourne Ben worked for a boutique private bank where he was a member of the Investment Committee which dictated the investment policy, the model portfolio construction and the desired asset allocation across the \$1bn client base before he joined the team.

ADAM ROWLEY **Managing Director**

Adam's role within the Investment Team is to ensure our compliance regime is maintained and evolves with a changing financial services landscape. Adam is responsible for overseeing the decisions made by the Investment Team with the ultimate goal of protecting capital for our clients when establishing and delivering investment strategies to them. Adam was previously the Chief Operating Officer (COO) for a boutique Melbourne advisory firm that operated under their own Australian Financial Services License.

FRED STRAUSS
Portfolio Manager

Fred's role in the investment Team is to provide analysis and research support. He has a strong interest particularly in the US market economy and provides valuable insight into international markets. Fred has a wide range of experience of more than 25 years in the areas of finance and investment. He has worked alongside Chief Financial Officers and in senior financial roles at large listed and unlisted companies in a range of industries including financial services. Fred is qualified as a Chartered Accountant (CA) and as a Chartered Financial Analyst (CFA). He is a member of the Institute of Chartered Accountants Australia, the CFA Institute (Charlottesville, USA) and the CFA Society of Melbourne.

HAMISH KELSO
Associated Portfolio Manager

Hamish is an Associate Portfolio Manager providing support to the Investment Team in trading and execution. Hamish graduated from RMIT University with distinction having completed a Bachelor of Business, majoring in Economics and Finance. His role includes analytical support for senior portfolio managers, tactical asset allocation changes, implementing investment decisions and ensuring that portfolio strategy is applied correctly.

3. Investment Guide

3.1 THE MANAGED PORTFOLIO

The Watershed International Share Portfolio seeks to provide attractive returns over the medium and long term while reducing the risk of permanent capital loss. The Portfolio consists of investments in high-quality global businesses whose shares are listed on major global stock exchanges.

Your financial adviser may also tailor a Portfolio for you using this Managed Portfolio. The Managed Portfolio is managed in accordance with an agreement between the Investment Sub-Adviser and the MDA Provider.

3.2 INVESTMENT STRATEGY AND PROCESS

The Portfolio is managed by identifying, and selectively investing in, listed global companies using a fundamental 'bottom-up' stock picking approach. Watershed will also take a 'top-down' view on economies and industry developments to assist in identifying investment opportunities. The Watershed philosophy for international equity investing is to invest only in businesses with a competitive advantage that operate in industries with high barriers to entry and that are managed by highly regarded managers. Furthermore, these businesses must deliver high returns on shareholders' equity with low gearing, and have a long track record of growth in sales, earnings and dividends. Watershed may also invest in high growth, non-dividend paying businesses if these businesses are dominant players and disrupters in their industries. However, investment in these type of businesses is the exception rather than the rule and exposure to these businesses is limited to no more than 15% of the portfolio. Watershed only invests in businesses they thoroughly understand in respect of risk, quality and value. The overall investment philosophy is supported by Watershed's underlying confidence that good businesses are eventually recognised by markets, repriced accordingly, and therefore provide excellent opportunities for good investment returns for well researched investment ideas.

The largest proportion of investments in international securities is typically located within the US but there will also be exposure to Europe, United Kingdom and to developed Asia. Watershed invests in high quality businesses trading at attractive prices with the focus on long term returns. Watershed's investment style incorporates both value and growth considerations, and would generally be considered to be style neutral.

3.3 REBALANCING AND ASSET WEIGHTINGS

The MDA Provider and the Investment Sub-Adviser will periodically review the assets held for your selected Managed Portfolios to ensure that weightings are consistent with the underlying Managed Portfolio's investment strategy as advised by the Investment Sub-Adviser. If the actual holdings in your portfolios do not align with the reference target set, your portfolios are rebalanced as closely as possible. A rebalance may not occur every time your portfolios are reviewed and remains at the MDA Provider's discretion based on the Investment Sub-Adviser's advice.

Following a rebalance, the assets held in your MDA may be different from the target sets of your chosen portfolios. If a rebalance or an investment instruction relevant to your portfolios requires a trade of less than the minimum trade size at market or less than an odd lot (in certain international markets), then this trade generally does not occur.

You should also be aware that each Managed Portfolio has a minimum investment amount which is set taking into consideration the investment strategy and the number and types of assets held in the Managed Portfolio. In some cases, investing the minimum investment amount may not be sufficient for you to acquire every asset in the Managed Portfolio. If you have close to the minimum amount allocated to a Managed Portfolio, this may result in holdings in an asset that would be less than the minimum market trade size, and therefore it may not be executed. All of the above may increase the differences between the investment performance of your portfolios and that of your chosen underlying strategies.

3.4 PORTFOLIO PARAMETERS

FEATURE	DESCRIPTION		
Name of portfolio	Watershed International Equities Managed Portfolio		
Investment Sub-Adviser	Watershed Dealer Services Pty Ltd		
Portfolio Manager	Watershed Funds Management Pty Ltd		
Investment Management Fee	0.66% p.a.		
Performance Fee	Nil		
Indirect Cost Ratio (ICR)	Nil		
Investment universe ¹	Global listed securities and cash		
Benchmark	MSCI World (ex-Australia) Index Net Total Return (AUD)		
Investment objective ²	The aim of the portfolio is to outperform the benchmark over a rolling five-year period by 2% to 3%p.a.		
Asset Allocation ³	Asset class	Target weight %	Allocation range %
	International Equities	98	75-98
	Cash	2	2-25
Investment strategy and approach	<p>The portfolio manager identifies, and selectively invests in, listed global companies using a fundamental ‘bottom-up’ stock picking approach. Watershed will also take a ‘top-down’ view on economies and industry developments to assist in identifying investment opportunities.</p> <p>Watershed invests in high quality businesses trading at attractive prices with the focus on long term returns. Watershed’s investment style incorporates both value and growth considerations and would generally be considered to be style neutral.</p>		
Designed for	<p>The portfolio is designed for investors seeking:</p> <ul style="list-style-type: none">• Long term returns of capital growth and modest income; and• Exposure to international listed securities and currency.		
Rebalancing frequency	Investment Sub-Adviser discretion		
Minimum initial investment ⁴	\$50,000		
Minimum additional investment	\$25,000		
Minimum redemption/withdrawal amount ⁵	\$25,000		
Suggested investment timeframe	5 years +		
Minimum number of securities	15		
Maximum number of securities	25		
Maximum single security weight (%)	15%		

¹ Please note these parameters are not absolutely fixed at all times. The Investment Sub-Adviser targets these parameters, but variations may develop from time to time due to events including corporate actions, market share price movements, index changes and delays in rebalancing due to the Investment Sub-Adviser minimising turnover of your investments. The timing of additional investments in your Managed Portfolio may also lead to short-term different balances of cash and securities. Mason Stevens will give you reasonable notice of any significant change to these parameters.

² There is no guarantee that this objective will be achieved.

³ The day to day allocation of assets aims to be within the allocation ranges stated but is indicative only. At any point in time the actual allocation may be very different from the ranges stated.

⁴ It is at the sole discretion of the MDA Provider to accept investments and redemptions below the minimum investment amount.

⁵ Subject to maintaining a minimum account balance of \$50,000. Please refer to the *Managing your MDA* section of the guide for further information.

4. Risk of investing

Before you make an investment decision, it is important that you understand the risks that can affect your investment. You must be prepared for the risk that your investment does not meet your investment objectives or you lose your money on your investment.

Specific risks apply to all investments that may have an effect on the value of your Managed Portfolio. The risks of investing in the Managed Portfolios may include, but are not limited to, the following factors:

- **Market Risk** - Unexpected conditions (i.e. economic, technological or political) can have a negative impact on the returns of all investments within a particular market. General movements in local and international stock markets, prevailing and anticipated economic conditions, investor sentiment, interest rates and exchange rates could all affect the value of listed securities and the investment returns.
 - **Company or security specific risk** - Risks which could affect the value of a specific security, such as a fall in the profit performance of a company may impact adversely on its share price and may also affect the interest rate it has to pay to borrow funds, which in turn, can affect the value of its debt securities.
 - **Currency risk** - If the Managed Portfolio's investments in international assets are unhedged, a rise in the Australian dollar relative to other currencies will negatively impact investment values and returns. Currency markets can be extremely volatile and are subject to a range of unpredictable forces. It is not the Investment Sub-Advisers intention to hedge the foreign currency exposure of the underlying assets arising from investments in overseas markets.
- Other risk of investment include:
- **Interest rate risk** - Changes in interest rates can influence the value of returns of investment in the Managed Portfolio.
 - **Credit risk** - Any change in the market perception of the credit worthiness of a security or the credit rating of the issues of the security may affect the security's value.
 - **Liquidity risk** - The risk that the Managed Portfolio may experience difficulty in realising its assets.
 - **Time horizon risk** - There is no assurance that in any time period, particularly in the short term, a Managed Portfolio will achieve its investment objectives. Many of the underlying assets may be volatile particularly over the short term. The Managed Portfolio is suitable for long term investors and is designed for short term investment.
 - **Income risk** - The level of income generated on the Managed Portfolio's investments can fall as well as rise and the tax status of such income can change.
 - **Asset risk** - Asset risk is the risk that a particular asset or asset class in which the Managed Portfolio invests may fall in value, which may have an impact on the value of the Managed Portfolio.
 - **Diversification/Concentration risk** - If your managed Portfolio is concentrated into one investment or sector, a fall in that investment or sector may have a significant adverse effect on your overall Managed Portfolio. The Managed Portfolio will have a relatively higher concentration over time of listed securities but it is not possible to advise in advance the levels of concentration or diversification of issuers, types of investments in the future as you could now.
 - **Investment risk** - All investments have an inherent level of risk. The general expectation is that a high risk investment offers a higher expected return on investment. Investment risk may result in performance less than you expect or the loss of all of the capital invested or reduction in or no income and possible delays in repayment. Whilst it is the intention of the Investment Sub-Adviser to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful.

- Specific portfolio risk - The Investment Sub-Adviser's investment approach may result in a Managed Portfolio that differs substantially from an industry benchmark and hence the Managed Portfolio's investment returns may also differ substantially from industry benchmark returns.
- Third party risk - The MDA Provider uses information and services provided by third parties such as sub-custodians and other service providers. Producers are in place to address risks associated with outsourcing, such as having comprehensive service agreements with service providers. If a service provider advises of an error, it is corrected and if material, it will generally be communicated to you or your advisor (or both).
- Systems and technology risk - The MDA Provider relies on the integrity and reliability of the trading and administration systems used to managed your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have back-up arrangements and business continuity plans. In the event that the systems fail there may be delays in processing transactions or in accessing your investment capital and investment returns may differ from those that would have been achieved.

Please note that the risks identified are not meant to be exhaustive as it is not possible to identify every risk factor associated with investing. The appropriate level of risk for you will depend on various factors including your age, investment timeframe, other investments you may hold, and your level of risk tolerance.

Investors who have concerns regarding any of the above risk factors or any other applicable risks, are encouraged to contact their financial adviser.

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