Fidelity Australian Elite Opportunities Managed Account Service Investment Mandate

MASON STEVENS

Investment Mandate issuer:
Mason Stevens Limited
ABN 91 141 447 207 AFSL 351578

Investment Sub-Adviser:
FIL Investment Management (Australia) Limited ABN 34 006 773 575

Date Issued: August 2021

Mason Stevens has appointed FIL Investment Management (Australia) Limited ABN 34 006 773 575 as Investment Sub-Adviser on the Managed Portfolio outlined in this Investment Mandate.

Fidelity INTERNATIONAL

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Contact Details

Mason Stevens Limited
Level 19, 420 George Street
Sydney NSW 2000
T: 1300 988 878
E: wealth@masonstevens.com.au
W: masonstevens.com.au

FIL Investment Management (Australia) Limited
Level 17, 60 Martin Place
Sydney NSW 2000
T: 1800 119 270
E: auclientservices@fil.com
W: https://www.fidelity.com.au/

Important Information

This Investment Mandate is issued by Mason Stevens Limited ABN 91 141 447 207 AFSL 351578 (Mason Stevens) as the Managed Discretionary Account (MDA) Provider of the MDA Service. Mason Stevens has appointed TFIL Investment Management (Australia) Limited ABN 34 006 773 575 AFSL 237865, as Investment Sub-Adviser on the managed portfolio outlined in this document.

In this document, MDA refers to a Managed Account provided by Mason Stevens which follows the investment strategy and parameters of the managed portfolios as defined in the Investment Guide section of this document.

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

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, FIMAL and their respective directors, officers, employees, subcontractors 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 this MDA Service.

Where there are references to data provided by third parties, none of Mason Stevens, nor FIMAL has control over that data and nor do they accept any responsibility for verifying or updating that data. Mason Stevens, FIMAL 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 portfolio.

FIMAL consent to statements in this document attributable to them or referring to them, and have not withdrawn their consent. FIMAL have confirmed 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 in Australian dollars and all fees are inclusive of GST net the effect of any reduced input tax credits. This document should be 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. This document is incorporated by reference into the Guide which contains important information on the fees and costs you pay when you establish an account and use the MDA Service. It also contains information on how to operate your account and how to contribute into your account once it is opened as well as the risks of investing. 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.

About the relevant parties 1

1.1 About FIL Investment Management (Australia) Limited

FIL Limited is the ultimate holding company of the group that trades as "Fidelity International".

FIL Limited is majority owned by senior employees and charities with founding family interests making up the balance. This means that we can maintain our independence and can invest for the long-term, while ensuring that the interests of our senior staff are very closely aligned with the interests of the company. We believe that this has significant benefits for our clients.

FIL Investment Management (Australia) Limited (FIMAL) is the investment sub-advisor for this portfolio. FIMAL is wholly owned by FIL Asia Holdings Pte Limited, which is wholly owned by FIL Limited.

1.2 Investment Process

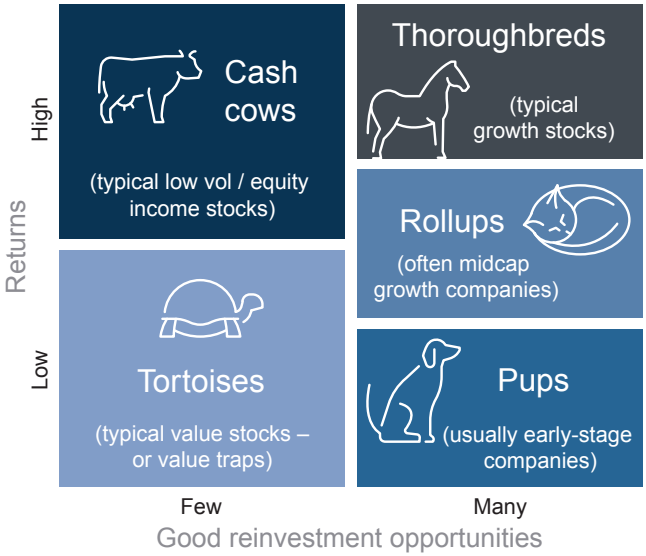
Idea Generation

The investment process begins with FIMAL Analysts' company researching stocks in S&P ASX 300 Index as the investment universe. These analysts communicate with the wider research network of Fidelity investment professionals worldwide for a global perspective on a stock and provide investment recommendations without the restriction of a house style. This research coverage of about 200 stocks is the starting point. The analysts' coverage will also point to other companies within the value chain which may prove to have investment merit. The portfolio manager makes a point of meeting with a very broad range of companies in order to build an understanding of the business models on offer and to identify any of interest.

While the portfolio manager is benchmark-aware, they are not restricted to investing only in those positions that are in the index. The portfolio is built through a bottom up security selection process that is focused on stock specific value creation. In doing so, the portfolio manager evaluates all investment opportunities that are available to them and can choose positions that are not in the benchmark. These may include off benchmark stocks and stocks that will be listing through an IPO process (Initial Public Offering).

Stock Selection

In assessing prospective holdings, the portfolio manager firmly believes that company microeconomics drive value creation, so the foundation for identifying a stock mispricing is to understand the economics of the business. Conceptually, company economics fall into five major types, depending on their returns and reinvestment profiles:



Source: Fidelity International, 2021.

The portfolio manager uses the analysts' inputs and company meetings to determine for each stock's its:

- value creation trajectory, i.e. its returns profile and cash utilisation, and hence its broad "type"
- balance sheet characteristics
- management quality
- ESG characteristics
- valuation history
- medium term mispricing, i.e. the gap between its current price and a future valuation plus expected dividend
- any liquidity constraints
- attractiveness relative to stocks of the same sector and type

Based on these inputs, the portfolio manager develops an investment thesis for the stock and will look to include into the portfolio stocks with a compelling thesis.

The portfolio manager will exit a position when the thesis is fully priced in, or if there is a change in the underlying thesis, and/or if there are better opportunities elsewhere in the market.

Portfolio Construction

The portfolio manager uses portfolio construction to put the portfolio in the ASX's sweet spot. Given the concentration within the Australian index, the optimal active money has historically been around 40-45%. Note that as the concentration of the index reduces the sweet spot migrates towards higher levels of active money. The strategy has taken advantage of this shift through time. If the concentration of the index continues to reduce, it is likely that the active money of the strategy can continue to increase through time. Most of that active positioning is kept within rather than across sectors by adopting industry-neutral positioning, focusing on the best investment options within each sector.

The portfolio manager will generally select between 20 - 35 stocks for the portfolio based on her assessment of risk and return. The positions are sized in such a way that the top 10 overweight holdings comprise around 50% of the strategy's active money.

1.3 Portfolio Parameters

Fidelity Australian Elite Opportunities Managed Portfolio

Feature	Description	
Portfolio Name	Fidelity Australian Elite Opportunities Managed Portfolio	
Investment Sub-Advisor	FIL Investment Management (Australia) Limited	
Inception Date	August 2021	
Investment objective	To achieve returns in excess of the S&P/ASX 200 Accumulation Index of at least 2% p.a over the suggested minimum investment time period of five to seven years.	
Investment Strategy and Approach	The model invests in a diversified selection of around 20-35 companies listed on the ASX and selected based on the manager's view of strong management, strong competitive advantages and favourable industry dynamics. The manager focuses on mid-to-long term fundamentals and seeks attractive stock mispricing of all types, while aiming to avoid a strong style bias. The portfolio is intended to be largely industry neutral and is constructed with risk and return considerations focused at the stock level.	
Benchmark Return	S&P/ASX 200 Accumulation Index	
Target Return	S&P/ASX 200 Accumulation Index + 2%	
Minimum number of securities	15	
Maximum number of securities	35	
Asset Allocation	**Allocation Range**	**Target**
Australian Equities	90% - 98%	95%
Cash (minimum 2% cash)	2% - 10%	5%
Investment universe	ASX listed securities and cash	
Maximum single security or fund weighting	15%	
Minimum suggested timeframe	5 – 7 years	
Minimum initial investment $	$35,000	
Minimum additional investment $	$10,000	
Minimum withdrawal	$10,000	
Rebalance frequency	Investment Sub-Adviser discretion	
Investment manager fee	0.65%	
Indirect Cost Ratio	Nil	
Performance fee	Nil	

Risks of investing 3

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 money on your investment.

Specific investment risks apply to all investments that may have an effect on the value of your MDA. The risks of investing by following the strategy and parameters of the managed portfolio 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-Adviser's intention to hedge the foreign currency exposure of the managed portfolio arising from investments in overseas markets.
- Interest rate risk – Changes in interest rates can influence the value and returns of investment in the managed portfolio.
- Credit risk – Any change in the market perception of the creditworthiness of a security or the credit rating of the issuer of the security may affect the security's value.
- Investment Sub-Adviser risk – This is the risk that the Investment Sub-Adviser may not achieve its stated investment objectives or that changes in the investment team may impact on the performance of the Investment Sub-Adviser.
- 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 not 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 total MDA. Diversification is used as a strategy aimed at reducing the impact that volatility in one investment or sector will have on the performance of 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 or industry sectors.
- Inflation risk – Your investment may not keep pace with inflation. Broadly, this could mean that prices may increase more than the value of your investments following the managed portfolio and if this risk eventuates, you would not be able to buy as much with the value of your 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 your MDA which follows that managed portfolio might have investment returns which also differ substantially from industry benchmark returns.
- Third party risk – The MDA Provider uses information and services provided by third parties such as subcustodians and other service providers. Procedures 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 manage your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have backup 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.